UNIVERSITY OF TORONTO

FINANCIAL REPORT

April 30, 2010

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HIGHLIGHTS

Year Ended April 30, 2010

(With comparative figures at April 30, 2009)

(Millions of dollars)

	2010	2009	% Change
Income Statement			
Revenues	$ 2,210.9	$ 1,924.7	14.9%
Expenses	$ 2,165.5	$ 2,093.9	3.4%
Net Income (Loss)	$ 45.4	$ (169.2)	126.8%
Balance Sheet			
Assets	$ 4,292.9	$ 3,909.0	9.8%
Liabilities	$ 2,492.9	$ 2,291.9	8.8%
Net Assets	$ 1,800.0	$ 1,617.1	11.3%
Net Assets Composed of:			
Endowments	$ 1,437.2	$ 1,286.3	11.7%
Internally Restricted Net Assets	$ 549.6	$ 562.8	-2.3%
Unrestricted Deficit	$ (186.8)	$ (232.0)	19.5%
	$ 1,800.0	$ 1,617.1	
Long-term Debt	$ 525.9	$ 554.0	-5.1%
Long-term Debt as % of Net Assets	29.2%	34.3%	
Student FTEs (November 1)	65,402	62,934	3.9%
Total Number of Students (November 1)	76,108	73,685	3.3%

HIGHLIGHTS

The University of Toronto (the "University") was established in 1827 and is Canada's largest and most comprehensive university.

Enrolment at the University is more than 76,100 full-time and part-time students (65,402 full-time equivalents), making the University of Toronto one of the largest universities in North America in terms of enrolment.

The University's size and academic resources provide its students with a wide range of academic programmes and courses, while its unique college system offers students learning experiences enriched by individual cultures in a smaller community. The University is located on three campuses: St. George (downtown Toronto), Scarborough and Mississauga.

Key drivers of financial performance are:

1) **Growth in student enrolment** has generated both additional revenues and additional expenses and has fuelled the need for additional space for teaching, for office space, for student activity, and for residence accommodations.

2) **Growth in research activity** has generated additional direct expenses which are offset by additional revenues. Growth in research results in the need for additional space and renovated space for conducting research as well as an increase in indirect costs which are not fully recovered by the University.

3) **Growth in salaries and benefits** has increased both expenses and liabilities due to growth in staffing and the cost of providing pensions and other employee future benefits.

4) **Growth in space** has required long-term borrowing to augment capital grants and donations, which increases liabilities and interest expense. Capital grants received increase liabilities (deferred capital contributions) which are recorded as revenue over time to match the amortization expense.

5) **Donations:** Expendable donations provide additional revenue in support of designated activities. Endowed donations are added directly to the endowment.

6) **Growth in endowments** over time provides additional investment income in support of designated activities, mostly endowed chairs and student aid, and enhances the balance sheet by increasing the University's net assets. During 2009-10, financial markets improved over last year increasing both endowment values and investment earnings.

7) **Investment earnings** are variable, even with investment policies with modest risk profiles. Investment returns in any given year may dictate whether the University experiences net income or a net loss for the year.

The recent economic turmoil has posed significant fiscal pressures for the University and its students. The University has been fortunate to face this deep recessionary period with some important advantages. Foremost among those advantages are the creativity and commitment of our faculty and staff, the inspiration that we derive from our outstanding students, and the continued support that so many alumni and friends have given the University over the years. The University has therefore been able to sustain its trajectory of excellence, unique to Canada, rare in any public university, and increasingly relevant to Canada's international aspirations.

The Income Statement

The following are the key drivers of financial performance of the income statement:

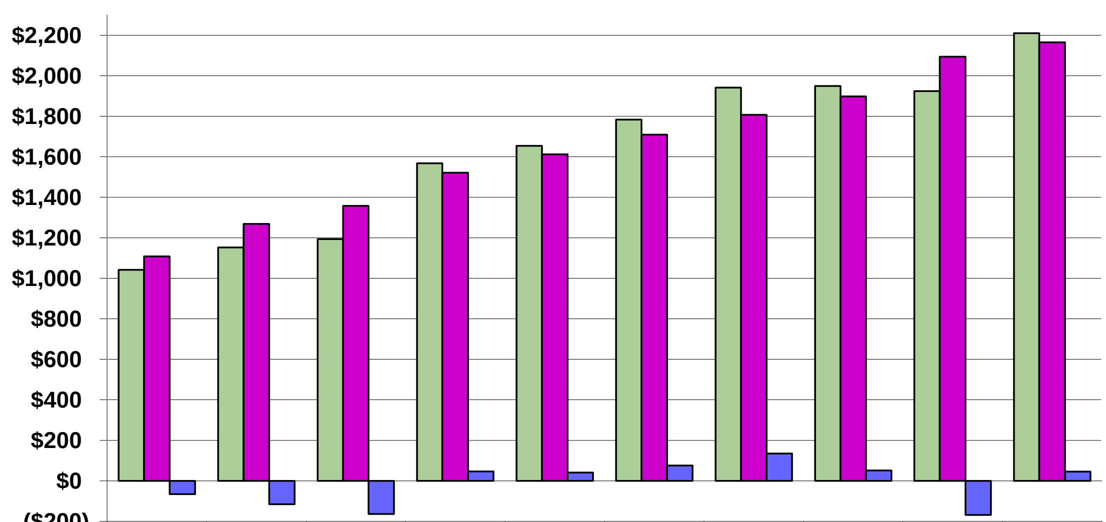
- Growth in student enrolment increases student fee revenues, government grants for general purposes, sales, services and sundry income (which include residence fees), salaries and benefits expense and materials and supplies expense.
- Growth in research activity affects research revenues, salaries and benefits and materials and supplies expense.
- Growth in space affects building renovations, operating, interest and amortization expense.
- Receipt of donations.
- Investment performance.

Revenues for the year ended April 30, 2010 were $2.21 billion, expenses were $2.17 billion and net income was $45.4 million. This income was primarily due to investment earnings of $124.9 million offset by a $99.9 million increase in unfunded employee future benefits which flowed through the statement of operations. The $124.9 million investment income reported in the statement of operations was made up of the following: $96.2 million on endowments and $28.7 million on other investments.

Total investment income for the year amounted to $231.6 million. The remaining $106.7 million ($231.6M-$124.9M), which was incurred with respect to externally restricted endowments, was reported directly on the balance sheet as an increase to endowments, as required by generally accepted accounting principles ("GAAP") (see the "Balance Sheet" section of this document for further details).

These financial results demonstrate that the University essentially operated on budget and in a break-even mode in 2009-10, with the exception of the impact of investment income and the requirement to record unfunded employee benefits.

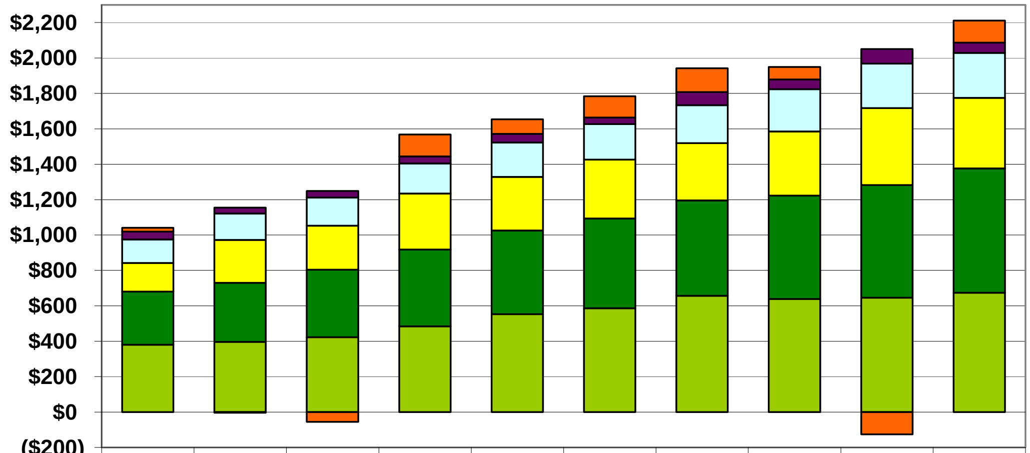
Revenues and Expenses
for the year ended April 30
(millions of dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues	1,041.6	1,152.1	1,192.7	1,568.1	1,653.8	1,784.3	1,942.0	1,948.9	1,924.7	2,210.9
Expenses	1,107.5	1,268.4	1,357.1	1,521.5	1,612.6	1,709.3	1,807.5	1,898.3	2,093.9	2,165.5
Net income (loss)	(65.9)	(116.3)	(164.4)	46.6	41.2	75.0	134.5	50.6	(169.2)	45.4

In 2010, $1.38 billion or 62.2% of revenues were from student fees and government grants provided in support of student enrolments. An additional $399.1 million represented government and other grants and contracts for restricted purposes. Together these three sources accounted for 80.3% of revenues for the year.

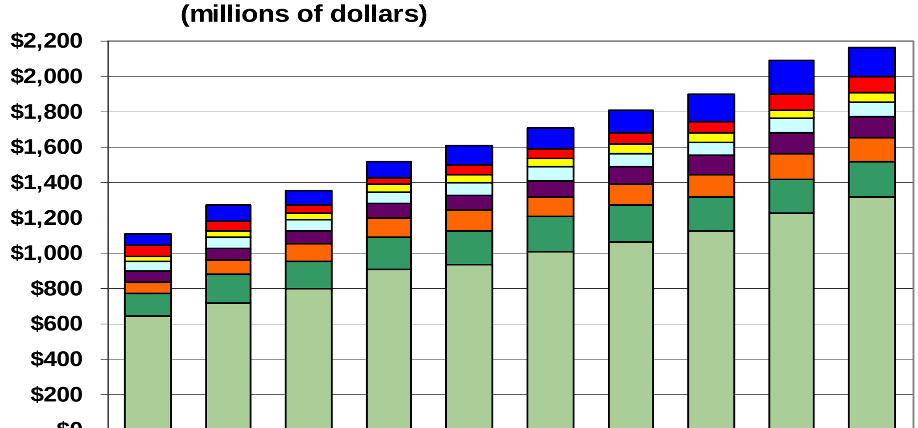
Revenues by Category
for the year ended April 30
(millions of dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total revenues	1,041.6	1,152.1	1,192.7	1,568.1	1,653.8	1,784.3	1,942.0	1,948.9	1,924.7	2,210.9
Investment income (losses)	22.1	(3.4)	(55.6)	123.9	82.8	120.0	134.4	69.9	(125.3)	124.9
Expendable donations	44.3	34.3	36.6	39.4	48.0	37.0	74.8	56.2	82.1	57.7
Other sales and services	132.2	149.6	159.4	170.2	194.8	202.2	212.9	237.4	251.0	253.1
Restricted grants and contracts	162.5	241.7	248.7	317.2	302.4	332.2	323.9	362.8	434.5	399.1
Student fees	299.8	333.7	380.9	433.1	472.3	505.7	538.9	583.6	636.4	701.3
Government grants	380.7	396.2	422.7	484.3	553.5	587.2	657.1	639.0	646.0	674.8

In 2010, expenses for the year amounted to $2.17 billion, of which $1.32 billion, or 60.9%, was for salaries and benefits.

Expenses by Category
for the year ended April 30
(millions of dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total expenses	1,107.5	1,268.4	1,357.1	1,521.5	1,612.6	1,709.3	1,807.5	1,898.3	2,093.9	2,165.5
Other	63.0	84.1	87.7	96.7	116.3	114.7	127.3	153.4	198.3	165.5
Repairs and maintenance	59.3	57.3	38.8	38.3	48.8	54.2	61.4	65.2	82.5	92.1
Utilities	32.3	35.1	39.1	38.2	44.5	51.1	52.5	53.0	51.0	51.3
Cost of sales and services	55.8	63.0	67.4	70.7	77.6	79.1	77.7	76.5	80.5	80.5
Amortization of capital assets	60.2	61.4	71.1	76.8	83.5	91.4	99.1	104.1	117.2	124.1
Scholarships, fellowships, bursaries	68.6	86.7	98.8	108.8	110.9	106.5	115.9	125.0	144.6	132.1
Materials and supplies	125.9	166.1	153.4	184.2	194.7	200.0	211.7	193.7	195.8	200.4
Salaries and benefits	642.4	714.7	800.8	907.8	936.3	1,012.3	1,061.9	1,127.4	1,224.0	1,319.5

It is important to note that faculty and staff salaries and benefits relating to teaching, research and administrative activities are predominantly funded from University operating funds (mostly student fees and government grants). Additional details are provided in the "Salaries and Benefits" section of this document. Materials and supplies amounted to $200.4 million, or 9.3% of total expenses. Scholarships, fellowships and bursaries were $132.1 million, or 6.1%. Utilities expense amounted to $51.3 million, or 2.4%. Repairs and maintenance amounted to $92.1 million or 4.3%. Most renovations to buildings are not expensed but are capitalized during the year as capital assets in accordance with the University's accounting policies.

The Balance Sheet

The following are the key factors affecting the balance sheet:

- Growth in pension and benefit costs affects liabilities and, where such liabilities are unfunded, reduces internally restricted net assets.

- Growth in space to support enrolment and research growth affects capital assets and long-term debt. Capital assets are accounted for in the financial statements at cost and not at fair value.

- Growth in endowments is derived from endowed donations and grants, and investment returns which are added to endowments for capital preservation.

At April 30, 2010, assets were $4.29 billion, liabilities were $2.49 billion and net assets were $1.80 billion. Assets and liabilities have grown since 2001 due to the construction of additional space to accommodate the increased number of students and increased research activities and due to growth in endowments. The University has obligations not recorded in the financial statements of $1.02 billion related to employee future benefits that will be recorded in the financial statements over time in accordance with GAAP.

Net assets reflect the University's net worth. Net assets change over time only through:

- the net income or net loss for the year,

- the change in endowments derived from 1) endowed donations and grants, and 2) from investment income on externally restricted endowments (which is not made available for spending) which do not flow through the income statement but rather are added directly to the endowment balance in accordance with GAAP, and

- the change in the fair value of interest rate swap contracts in accordance with GAAP.

Net assets increased from $1.62 billion in 2009 to $1.80 billion in 2010 mainly as a result of a net income of $45.4 million, a $106.7 million gain on externally restricted endowments and endowed donations and grants of $23.7 million.

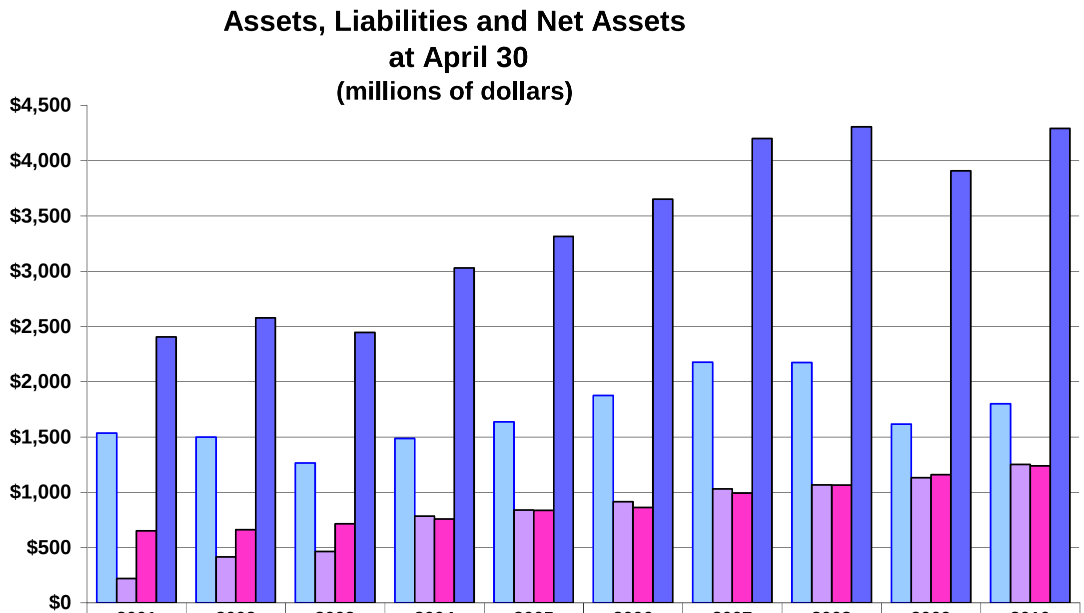
Net assets consisted of the following:

- $1,437.2 million of endowments, representing 79.8% of net assets.

- $549.6 million of internally restricted net assets of which $413.2 million represents investment in capital assets

- ($186.8) million of unrestricted deficit.

The $186.8 million unrestricted deficit is largely due to the internal financing of capital construction in accordance with the University's debt strategy (see the "Space" section of this document).



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net assets	1,535.9	1,500.5	1,264.2	1,487.0	1,636.1	1,876.4	2,176.5	2,174.3	1,617.1	1,800.0
Liabilities	219.4	415.4	465.7	784.6	840.0	913.9	1,030.6	1,066.8	1,132.5	1,253.3
Deferred contributions	650.9	661.7	715.3	758.9	837.7	861.9	993.7	1,064.2	1,159.4	1,239.6
Assets	2,406.2	2,577.6	2,445.2	3,030.5	3,313.8	3,652.2	4,200.8	4,305.3	3,909.0	4,292.9

The $549.6 million in internally restricted net assets mainly reflects $413.2 million of investment in capital assets representing internal monies previously spent by the University for capital projects which will be reduced over time as the assets are amortized. Internally restricted net assets also include $438.9 million of reserves partially offset by the net unfunded liability associated with employee future benefits of $302.5 million.

The $1.44 billion in endowments represent over 5,150 individual endowment funds, which are restricted in nature based on the direction of donors or Governing Council.

The Role of the Government of Ontario

In fiscal 2010, $1.38 billion or 62.2% of revenues comprised student fees and government operating grants provided in support of student enrolments. The provincial government provides operating grants and regulates tuition fees for domestic students in publicly-funded programmes.

The Ontario Budget of May 11, 2005 announced a major funding allocation of $6.2 billion for universities and colleges over the period from 2004 to 2010, including funding for graduate expansion, for additional undergraduate medical students, for tuition freeze compensation, for additional quality enhancement funds and increased financial aid for low and middle income students. This announcement included a targeted increase in graduate enrolment of 14,000 students by 2009 for the Ontario system. In 2005, the University made a submission for 4,470 additional graduate students over 2004-05 levels (2,330 in phase one by 2007-08 and 2,140 in phase two) and submitted a plan for this expansion, which was approved by Governing Council. Phase 2 was announced in February 2009 and the University was allocated 2,722 spaces relative to 2004-05, comprised of 1,709 Masters and 1,013 PhDs. It was also announced that funding will be phased-in to 2011-12 with an additional two years, if necessary, to achieve the end-state targets. Subsequent to the Phase 2 allocations and in response to increased demand for Masters degrees, especially Professional Masters, the University continued to advocate to the Ministry for increased flexibility or “fungibility” between the Masters and PhD pools. After a mid-program review of the graduate expansion initiative, the Ministry announced in December 2009 that it would provide a one-time opportunity for institutions to convert up to 50% of their remaining spaces that had yet to be realized as of 2007-08 between the two pools on a grant-neutral basis. The University of Toronto received permission to convert 261 PhD spaces to 500 additional Masters spaces. End-state targets are now 7,031 Masters and 3,854 PhDs. Operating funding for these spaces will be accompanied by capital funding which will be provided in the form of a stream of payments over 20 years.

Tuition fees for domestic students are regulated in Ontario universities. On March 8, 2006, the Government of Ontario announced a new tuition framework for the Province which was extended in 2010 for another two years to April 30, 2012. Universities may increase tuition fees by up to 4.5% for domestic students entering most programmes and by no more than 4% for in-programme students. Tuition fees may increase by a maximum of 8% in professional programmes such as Law, Medicine and Engineering and in graduate programmes, provided that the average increase across the University does not exceed 5%. The tuition schedule adopted by the University reflected this framework. At the same time, the government also introduced a student access guarantee to ensure that no student is denied access to higher education for financial reasons, which is in line with the long-established policy of the University. This guarantee has also been incorporated in the University's multi-year agreement with the Province. The University remains committed to the goal of accessibility and to working with the provincial and federal governments to achieve this goal. In 2010, the University spent $132.1 million on student aid, a significant increase from $68.6 million in 2001. Despite the cancellation of the 2009 endowment payout, which is a significant source of funds for student aid, the University remained committed to meeting all needs-based based student requirements as well as maintaining a strong merit scholarship program.

On March 25, 2008, the Government of Ontario released its 2008-09 budget that pledged a range of investments for post-secondary education and research. The Ontario Budget included an investment of an additional $200 million under the University Campus Renewal funding program for the maintenance and renewal of university facilities. In 2008-09, the University received $37.7 million as its share of funding under this program. The funds were used to improve energy efficiency, for campus safety and security, and to renew aging infrastructure. In 2008-09, the University also received another $25.0 million in capital funding to lever other funds for the new School of Global Affairs to build on its existing strengths to educate Ontarians at a graduate level in the various disciplines required for effective globalization. The Ontario Budget also included a commitment to invest $250 million over the next five years in the Ontario Research Fund for research infrastructure, providing matching funds for awards from the Canada Foundation for Innovation to help recruit top researchers from around the world and retain them in light of growing competition from universities in other jurisdictions.

On March 26, 2009, the Government of Ontario released its 2009-10 budget centered on helping the Province weather the current economic downturn and preparing for its recovery by moving to a more innovative, high-value, and green economy. To that end, the Ontario Budget made a large-scale capital investment in Ontario's colleges and universities by earmarking the following funding related to post-secondary education:

- $780 million in funding for universities and colleges over two years, to be matched with Federal funding through its Knowledge Infrastructure Program in support of campus renewal and new infrastructure. The University was allocated $151 million to build an instructional and laboratory complex at its Mississauga and Scarborough campus as well as an Innovation Centre for the Canadian Mining Industry at its St. George campus. Of this amount, $59.3 million was received by the University in fiscal 2010.

- $150 million in one-time-only operating relief for colleges and universities in support of enrolment growth and fiscal pressures, of which the University received $16.0 million at April 30, 2009.

- $10 million to expand graduate fellowship endowments, of which the University received $2.4 million at April 30, 2009.

- $715 million aimed at supporting innovation in Ontario including $300 million over six years for research infrastructure funding through the Ontario Research Fund to be used to match $300 million in Canada Foundation for Innovation funds; $100 million over four years for additional operating funds for biomedical research and $250 million over five years for a new Emerging Technologies Fund.

On March 29, 2010, the Government of Ontario released its 2010-11 budget which presented its Open Ontario Plan to drive economic growth, create jobs, and increase the educational advantage of Ontario citizens. The budget includes the following investments for postsecondary education:

- $248 million operating funding to accommodate 11,000 university students in an effort to ensure that 70% of the population attains higher learning. The impact of this is that all undergraduate students in 2009-10 were fully funded and not subject to discounted funding as originally anticipated.

- A commitment to encourage the brightest students world-wide to study in Ontario by committing to increase international enrolment by 50% over the next five years while still ensuring that all qualified domestic students are able to attend university.

- The addition of 1,000 new Ontario Graduate Scholarships in support of the innovative and creative graduate students as an essential component of Ontario's future.

Financial Planning

Revenues are expected to increase over the next several years as a result of continuing growth at the east and west campuses and the government announcements outlined above, although the University's capacity to take more students is impacted by physical space limitations on the St. George campus. With the potential for new revenues tied primarily to enrolment growth and without an increase in per-student funding from the government and continued restrictions on tuition levels, revenues at the University are severely constrained. On the other hand, expenses are expected to continue to increase. This will require ongoing expense containment measures including productivity improvements.

The 2009-10 operating budget was structured to enable individual academic divisions to run deficits, where necessary, to ensure that their commitments were met. Under this structure, $17.8 million in divisional deficits will be repaid over the next five years. The long-range academic and budget plan for 2010-11 to 2014-2015 reflects the tuition framework, the undergraduate and graduate expansion plans as well as other updated assumptions.

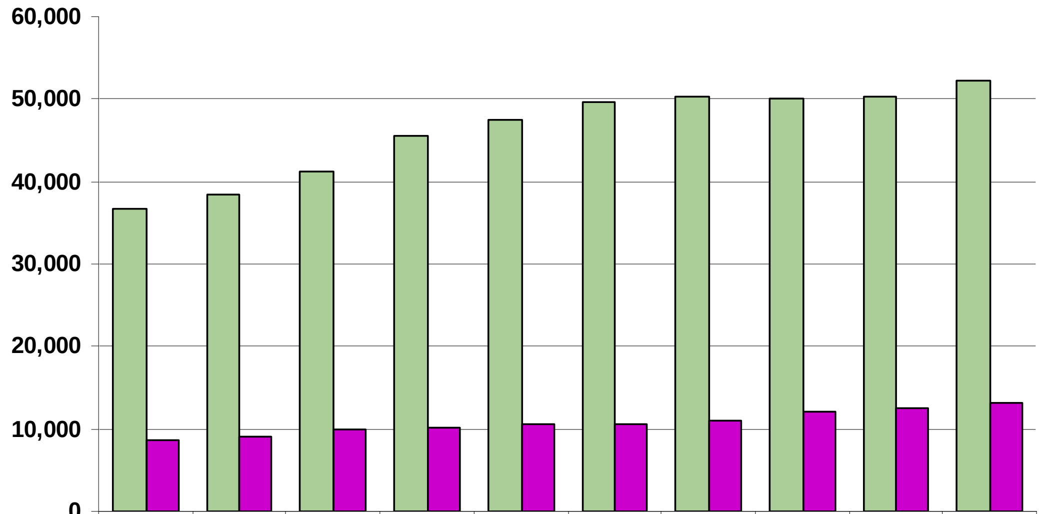
Student Enrolment

The demand for student spaces has increased significantly as a result of increased population growth and participation rates since 2001 combined with the effect of the elimination of grade 13 in Ontario, which impacted the entering classes of 2002, 2003, and 2004. More than 71% of the direct entry undergraduate student body is drawn from the greater Toronto area.

The University has increased enrolment to accommodate this additional student demand and student full-time equivalent enrolment increased from 45,261 in 2001 to 65,402 in 2010, an increase of 44.5%.

Government grants for general operations increased to $674.8 million for 2010 from $646.0 million for 2009, an increase of 4.5% due primarily to an increase in undergraduate accessibility, graduate expansion and medical expansion funding.

Number of Undergraduate and Graduate Student FTEs as at November 1



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Undergraduate	36,712	38,339	41,184	45,533	47,402	49,669	50,220	50,159	50,336	52,286
Graduate	8,549	9,107	9,824	10,230	10,485	10,534	10,990	12,142	12,598	13,116

Tuition fees for domestic students increased in accordance with the tuition framework set by the provincial government. Student fees revenue increased to $701.3 million for 2010 from $636.4 million for 2009 as a result of student fee increases and enrolment growth.

Although the University has received full average funding for additional students, neither on-going government grants nor regulated tuition fees have dealt adequately with the issue of inflation, which has resulted in the need for continuing cost containment through productivity improvements to maintain financial health.

Since 2001, student aid (scholarships, fellowships and bursaries) increased by 92.6% to $132.1 million. This amount excluded student aid provided by the federated universities since 2001. The University of Toronto has a commitment under our policy on student financial aid which ensures that no qualified student will be prevented from beginning or completing his or her education due to financial need.

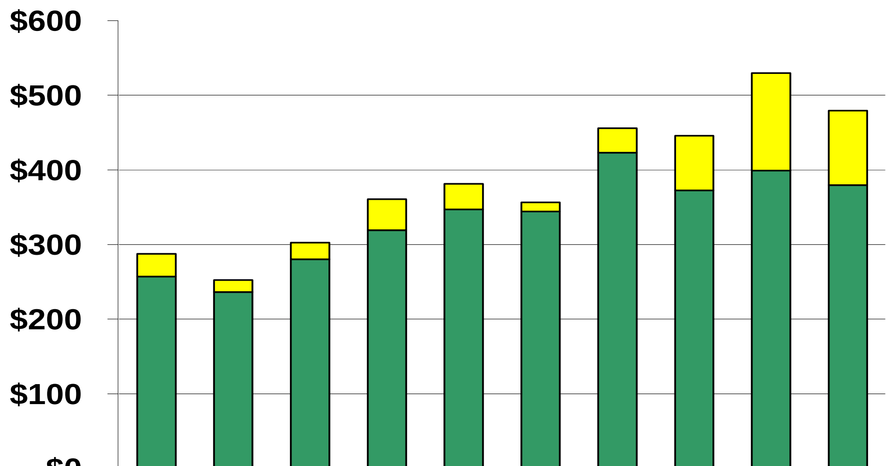
Research and Capital Infrastructure

Enabling research is a strategic objective of the University. Research, scholarship, and research training constitute integral elements of the academic programme. The University's long-standing strategic approach to research planning has been to highlight research strengths in six broad academic areas:

- the Humanities;
- the Social Sciences;
- Advanced Science and Technologies;
- Biomedical, Health and Life Sciences;
- Physical, Environmental, Earth and Space Science Related Studies; and
- Mathematical and Computational Science Related Studies.

The focus on research strength and excellence across the spectrum of academic disciplines has positioned the University well to mobilize research clusters and respond to the research funding opportunities and university-government-private sector partnership opportunities arising out of the Federal government's Science and Technology Strategy priorities and the research and innovation priorities set out in the provincial government's Ontario Innovation Agenda. The 2010 Federal Budget added $32 million a year to the Granting Councils in 2010 and 2011, along with a proportional increase in funding for indirect costs. In addition, the federal government will fund $45 million to support 140 new postdoctoral positions over five years.

Government and Other Grants and Contracts Received for Restricted Purposes for the year ended April 30
(millions of dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Capital infrastructure and other	30.7	16.2	22.1	41.5	34.3	12.2	32.7	73.1	130.7	99.7
Research	257.0	236.4	280.2	319.3	346.9	344.2	423.0	372.6	399.0	379.6

From digital media and regenerative medicine to alternative energy technologies and clean technologies, the University is working with and facilitating collaborative work in its research community to take best advantage of research and related industry partnership and commercialization funding opportunities resulting from these new government strategies. The University is allocating resources as necessary to take advantage of funding related to the federal and provincial priority sectors and also to seek to advance research in these areas, joining with other universities, and drawing on the support of government programmes and private sector partners in Canada and around the world.

In recent years, both the federal and provincial governments have invested heavily in research infrastructure as well as in their more traditional area of direct support for research. The University has been successful in a number of competitions for research funding and research infrastructure (see the "Space" section of this document for further details).

Funding received for research is accounted for as follows:

- Research grants and contracts are recorded as revenue when spent.
- Unspent research grants and contracts are recorded as deferred contributions.

Government and other grants and contracts received in 2010 for restricted purposes, which are mostly research grants, totaled $479.3 million, and were reported as follows: $378.0 million as revenue from grants for restricted purposes, $21.1 million as contract research revenue and $80.2 million as deferred contributions and deferred capital contributions. The $479.3 million comprised $379.6 million for research and $99.7 million mostly for capital infrastructure.

Research grant funding has increased by 47.7% since 2001. The increase in research funding is mainly due to increased funding made available from the federal and provincial governments and to the success of University of Toronto researchers in attracting research awards.

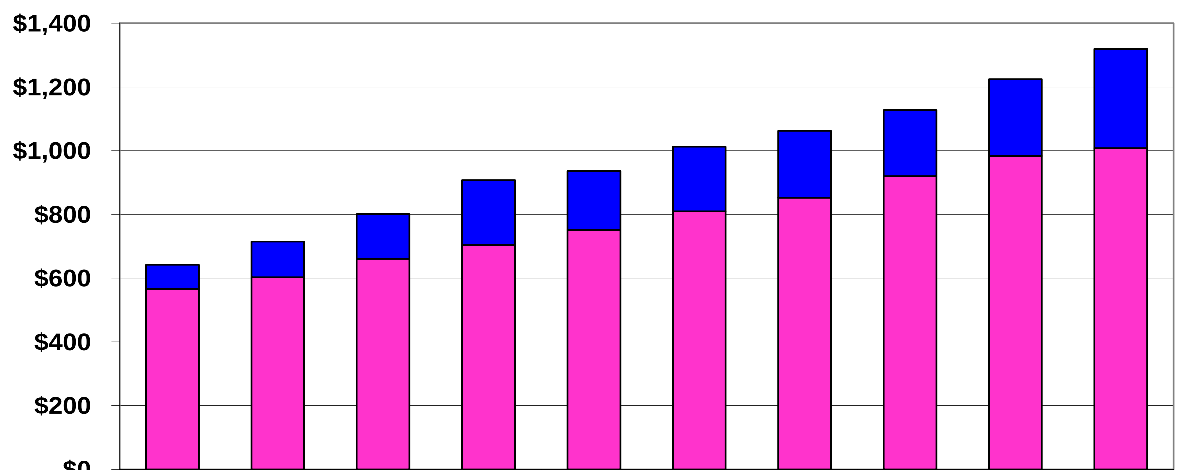
It is important to note that research revenues can only be spent on research activities, but the amounts received do not adequately cover the full direct and indirect costs of research activities.

Capital infrastructure funding decreased from $130.7 million in 2009 to $99.7 million in 2010 mainly as a result of the completion of the Campus Renewal Program in 2009, the receipt of $59.3 million in Knowledge Infrastructure Program funding offset by the receipt, last year, of $27.8 million in infrastructure support for the Martin Prosperity Institute and $25.0 million for the new School of Global Affairs.

Salaries and Benefits

Salaries and benefits increased from $642.4 million in 2001 to $1.32 billion in 2010 due to negotiated salary increases for employee groups and due to the additional number of faculty and staff (an increase of 34%) to deal with the growth in students and research activity. In 2010, the University had 10,650 active faculty with teaching/research responsibilities, 141 librarians, 5,663 administrative staff and 4,255 teaching and graduate assistants.

Salaries and Benefits
for the year ended April 30
(millions of dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Benefits	76.5	112.1	140.8	203.7	184.7	202.8	209.7	207.5	240.4	311.6
Salaries	565.9	602.6	660.0	704.1	751.6	809.5	852.2	919.9	983.6	1,007.9

The University is awaiting a two year arbitrated award for faculty and librarians effective July 1, 2009 and has entered into the following settlements:

- Three year agreement with administrative staff represented by the United Steelworkers for salary increases of effectively 3% per year starting July 1, 2008 to July 1, 2010 and 0.5% effective January 1, 2009.

- Three year agreement with sessional lecturers and instructional assistants (non-student) and writing instructors starting September 1, 2009 to August 31, 2012.

- Three year agreement with teaching assistants starting May 1, 2008 to April 30, 2011 for salary increases of effectively 3% per year starting September 1, 2008 to September 1, 2010 and 0.5% effective January 1, 2009.

The University provides its employees with defined pension benefits, life insurance, survivor income benefits, long-term disability insurance, medical benefits, vision benefits, memberships in University facilities, vacation, educational support, and several types of leave. Benefits expense for the year was $311.6 million comprised of employee future benefits expense of $204.9 million and other benefits expense of $106.7 million. The increase in benefits from last fiscal year is mainly due to a $73.9 million increase in pension expense. It should be noted that salaries and benefits represent 73.6% of operating fund expenses.

Employee future benefits represent benefits to be provided to employees in the future based on service in the current year. They include pensions, long-term disability insurance, cost of living adjustments for survivor income, and medical benefits for pensioners. These benefits are accounted for on an accrual basis of accounting and therefore reflect the cost of providing these benefits irrespective of the amount of funding provided in support of these benefits. Since 2001, the cost of providing employee benefits has increased by $235.1 million, mainly as a result of an increasing number of staff, as well as improved retiree pension benefits and accounting for these benefits on an accrual basis as described below.

Pension benefits, which are based on salaries capped at $150,000, are provided through a combination of registered pension plans to the Income Tax Act maximum of approximately $133,797 and a non-registered supplemental retirement arrangement (SRA) between $133,797 (increasing by 3.5% thereafter) and the maximum of $150,000. The University set aside $152.0 million as internally restricted net assets at April 30, 2010 related to its pension and supplemental retirement arrangement obligations.

In accordance with GAAP, expenses and liabilities for employee future benefits are reported on an accrual basis instead of on a pay as you go (funding) basis. Liabilities are required to be valued using current long-term bond rates instead of using long-term asset return assumptions for funding purposes. This requirement gives rise to both current and past service liabilities which are being added to the liabilities recorded on the financial statements over 14 years. The addition over time of unfunded employee future benefits liabilities is increasing the liabilities section of the balance sheet without a corresponding increase in assets. It is therefore also reducing the net assets section of the balance sheet and constraining our ability to grow and our capacity to borrow.

The main reason for the increase in the obligations from 2009 is a decrease in the rate used to discount the obligations as prescribed by generally accepted accounting rules. The main reason for the increase in the fair value of the pension plan assets is a result of improved investment markets.

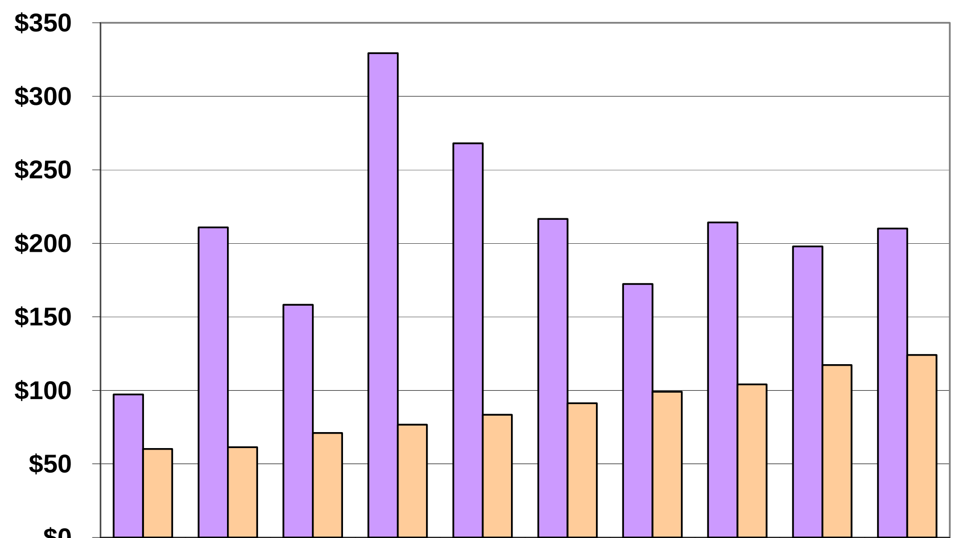
April 30, 2010	**Pension plans**	**Other benefit plans**
Plan status:		
Assets	**$2.22 billion**	**$36.2 million**
Obligations	**$3.49 billion**	**$436.5 million**
Deficit	**$1.27 billion**	**$400.3 million**
Recorded in financial statements:		
Liability	**$161.0 million**	**$329.7 million**
Expense	**$168.1 million**	**$36.8 million**

April 30, 2009	Pension plans	Other benefit plans
Plan status:		
Assets	$1.98 billion	$40.6 million
Obligations	$2.76 billion	$318.5 million
Deficit	$784.0 million	$277.9 million
Recorded in financial statements:		
Liability	$90.7 million	$300.1 million
Expense	$94.2 million	$49.7 million

Space

The University has undertaken an ambitious capital construction program to significantly expand space capacity to accommodate increased numbers of students and to expand and update research infrastructure. This program began in 1999 and included a significant expansion of the Mississauga and Scarborough campuses and considerable expansion and renovation on the St. George campus. Space capacity is being further expanded due to the additional space requirements arising from graduate student expansion and undergraduate medical student expansion.

Capital Investment in Infrastructure
for the year ended April 30
(millions of dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Additions to capital assets	97.3	210.9	158.3	329.3	268.0	216.7	172.4	214.3	197.8	210.1
Amortization	60.2	61.4	71.1	76.8	83.5	91.4	99.1	104.1	117.2	124.1

Additionally, the University has future obligations of deferred and pending maintenance, which are currently estimated at $380.0 million, including asbestos containment and removal. The University has integrated its capital programs by pooling the various funds available and prioritizing maintenance and renewal requests. The University is participating with all other Ontario universities in a continuing study that is analyzing, in some detail and on a uniform basis, the deferred and pending maintenance obligations of every university in the Province. The long-range academic and budget plan for 2010-11 through 2014-15 includes funding to arrest further deterioration of the physical infrastructure.

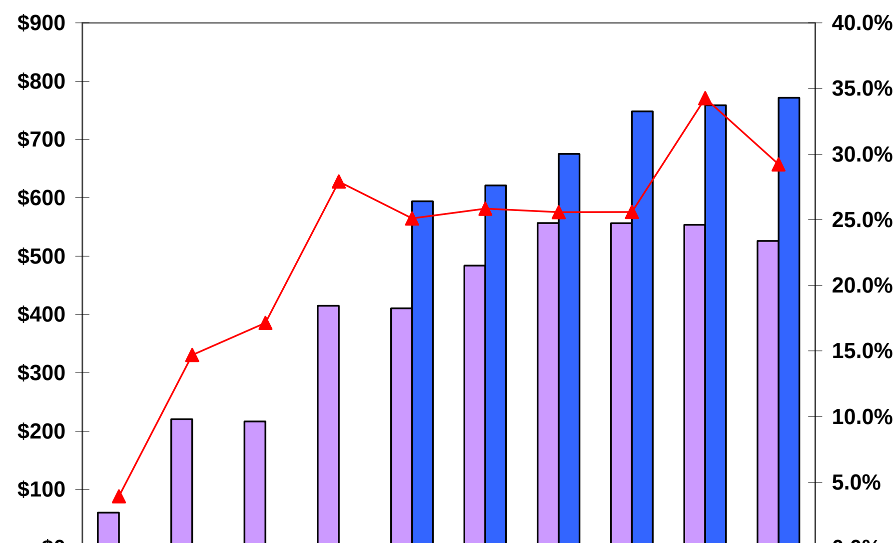
Governments have also provided funding over the years to assist the University. The 2009 Federal Budget announced $2 billion for university and college infrastructure refurbishment and new construction initiatives to advance research and development in universities and pledged $750 million over three years to the Canada Foundation for Innovation to support leading edge research infrastructure. During the year, the University also received $5.0 million from the Province of Ontario's Facilities Renewal Program. Unfortunately, the Province has decided to reduce this program's funding for the Province as a whole from $40 million in 2010 to $26 million in 2011.

In 2010, the University spent $59.3 million of the $151 million allocated from the Knowledge Infrastructure Program towards the construction of instructional and laboratory facilities at its Mississauga and Scarborough campus as well as an Innovation Centre for the Canadian Mining Industry at its St. George campus.

Borrowing

The approved borrowing strategy provides for a maximum borrowing amount of $971.5 million at April 30, 2010, comprised of external borrowing of $771.5 million (40% of net assets averaged over 5 years) plus $200.0 million in internal financing. In 2010, the outstanding external borrowing is comprised of $510.0 million (gross of $3.0 million of issue costs) of debentures and $15.9 million (net of fair value impact of $5.6 million of interest rate swaps less $0.3 million due to an interest-free loan) of other long-term debt. At April 30, 2010, outstanding external borrowing represented 27.3% of net assets averaged over 5 years.

External Borrowing Outstanding
for the year ended April 30
(millions of dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total external borrowing	60.2	220.5	216.7	415.1	410.6	483.7	556.7	556.3	554.0	525.9
Maximum external borrowing capacity					593.9	621.1	675.2	748.0	758.4	771.5
External borrowing as a % of net assets	3.9%	14.7%	17.1%	27.9%	25.1%	25.8%	25.6%	25.6%	34.3%	29.2%

The University's credit ratings are Aa1 (Moody's), AA (Standard and Poor's) and AA (Dominion Bond Rating Service), which ranks the University as a strong investment-grade credit equal to the Province of Ontario.

Donations

Academic priorities that cannot be completely funded through internal resources become approved priorities for fundraising. Priorities are assessed on an annual basis and revised as necessary. The Provost must approve all initiatives before they become priorities for fundraising.

The decision to hold fundraising as servant to the academic plans of its faculties, colleges, schools, and divisions, overseen by the Provost with the involvement of principals, deans and faculty, continues to play a critical role in the success of all advancement programs at the University. The clear link with institutional planning enables the University to assure donors that the priorities they are being asked to support are critical to the achievement of teaching and research objectives. As it has in the past, this link will be an essential element in the success of the University's next comprehensive campaign currently under development.

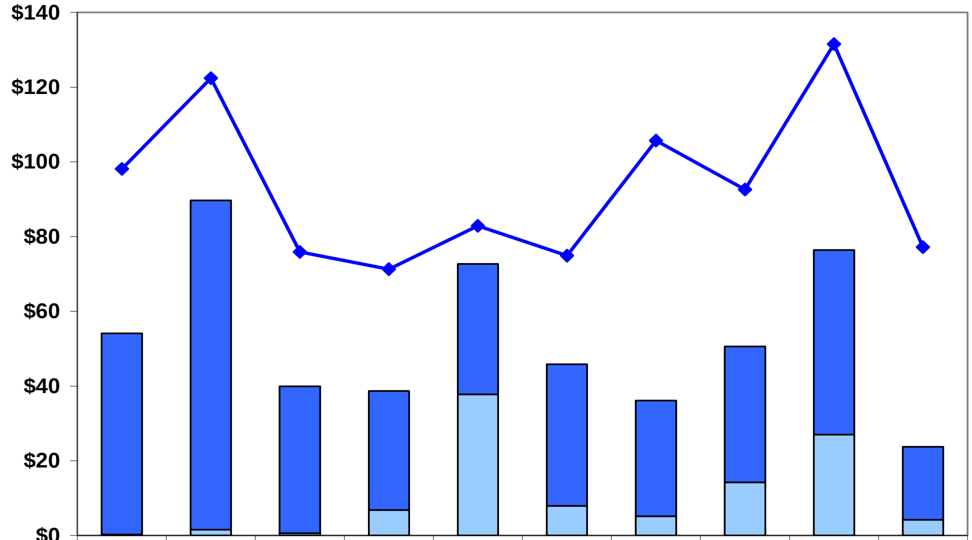
The total of new pledges raised for the University (including federated universities and other affiliated institutions) for the year ending April 30, 2010, was approximately $120 million compared to $106 million in 2009. The decline in new pledges and gifts in 2009 and 2010 from the levels recorded in the 2007 and 2008 fiscal years is attributed to the economic downturn which particularly affected the acquisition of major gifts, typically driven by appreciated securities.

Donations revenue recorded in the University's financial statements does not include donations to the federated universities – Victoria University, University of St. Michael's College, and The University of Trinity College. Donations are recorded in the financial statements as follows:

- Unrestricted expendable donations are recorded as revenue when received;
- Restricted expendable donations are recorded as revenue when spent;
- Unspent restricted expendable donations are recorded as liabilities (deferred contributions or deferred capital contributions); and
- Endowed donations are not recorded as revenue. They are added directly to endowments, as additions to net assets.

In 2010, donations received by the University (excluding receipts by the federated universities and other affiliated organizations) totaled $77.2 million and were reported as follows: $57.7 million in expendable donations was reported as revenue and $19.5 million was added directly to endowments. Government grants and other endowed contributions totalled $4.2 million. These were added directly to endowments and were provided in support of scholarships for Ontario-resident students with financial need. It should be noted that the graph on the next page tracks the cash received by fiscal year. There is usually a lag between the growth in pledges and related commitments, and the actual cash receipt of funds.

Endowed Contributions and Total Donations Received
for the year ended April 30
(millions of dollars)

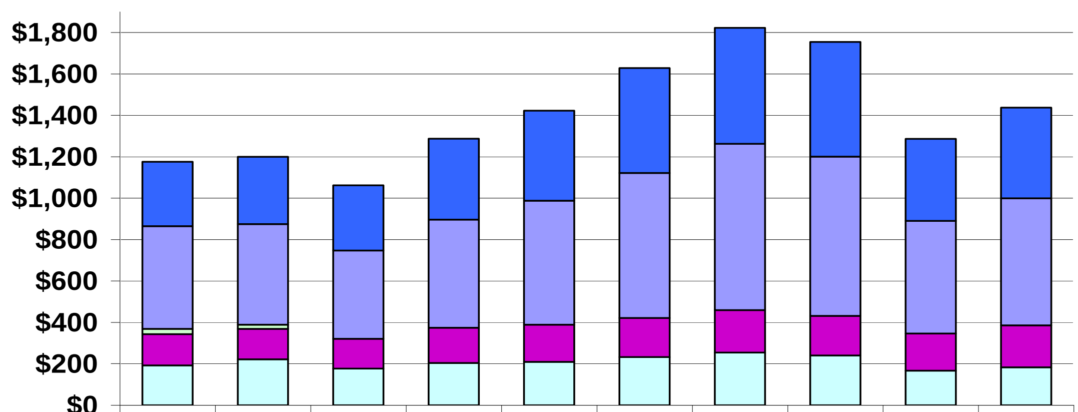


	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Endowed donations	53.8	88.1	39.3	31.9	34.9	37.9	30.9	36.4	49.4	19.5
Endowed grants	0.3	1.6	0.6	6.8	37.8	7.9	5.2	14.2	27.0	4.2
Total donations	98.1	122.4	75.9	71.3	82.9	74.9	105.7	92.6	131.5	77.2

Endowments

Endowments are restricted funds which must be used in accordance with purposes agreed between the University and donors, or determined by Governing Council. Endowments are not available for use in support of general operating activities.

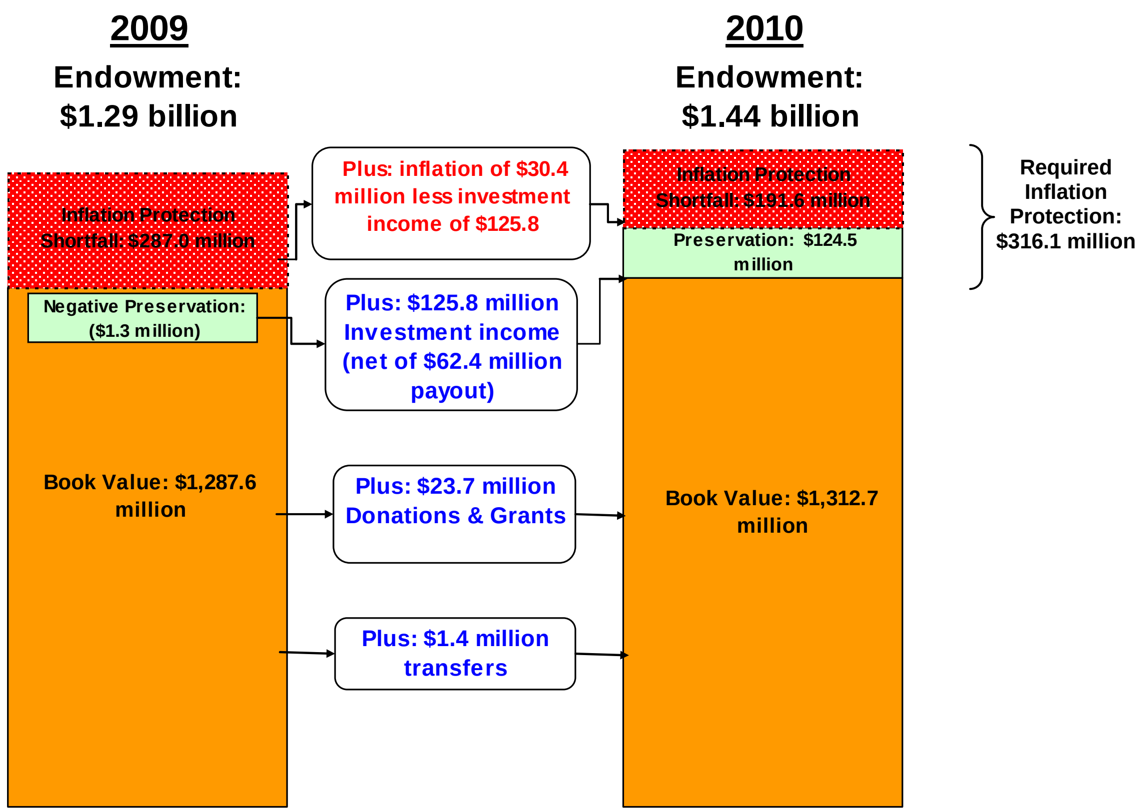
Endowments at Fair Value
at April 30
(millions of dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total endowments	1,176.2	1,199.7	1,062.3	1,287.7	1,422.8	1,628.8	1,822.7	1,754.8	1,286.3	1,437.2
Chairs and professorships	311.4	324.5	314.4	390.7	434.8	507.6	560.5	554.4	395.5	437.4
Student aid	495.6	486.4	427.3	522.8	599.7	699.4	802.4	768.1	543.9	614.1
Matching funds	25.4	19.2								
Academic programs	151.5	148.0	143.8	170.3	179.0	189.0	205.9	191.8	180.3	203.1
Research	192.3	221.6	176.8	203.9	209.3	232.8	253.9	240.5	166.6	182.6

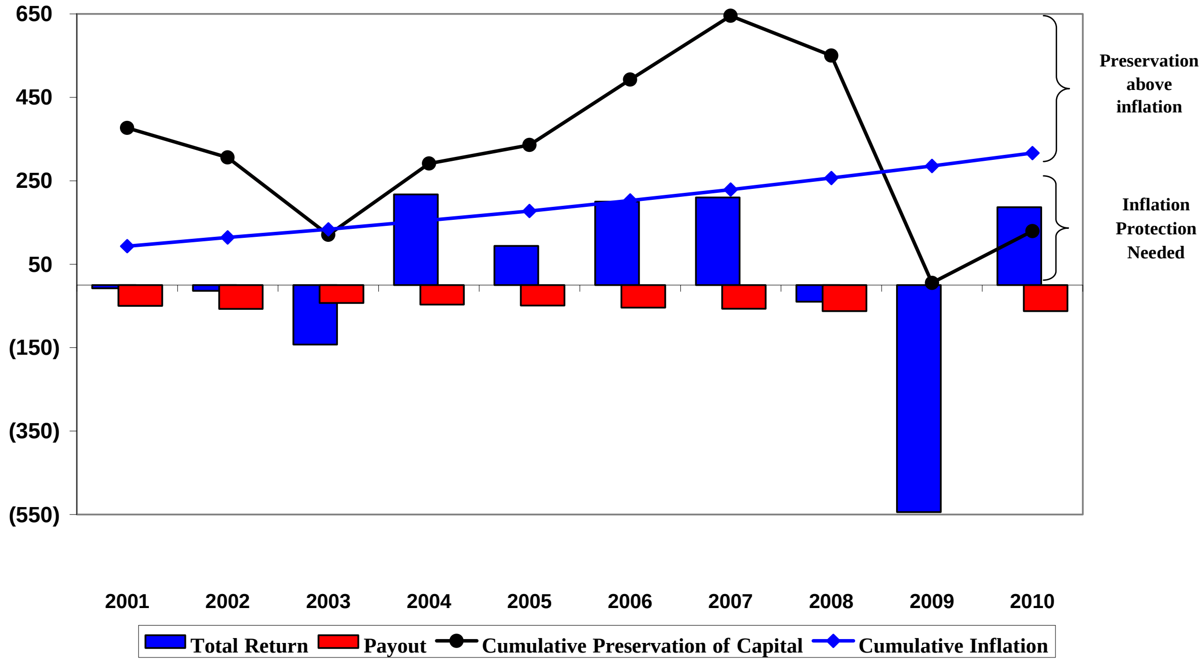
Endowments are managed in a unitized pool with an annual spending rate. The University's endowment spending objective is to provide a predictable amount for spending (payout) each year that increases with inflation. To do this, the University preserves capital by constraining the annual spending rate and setting funds aside when investment returns are good. This strategy protects against inflation and creates a cushion from which funds can be released to maintain spending when there is a moderate downturn in the financial markets. The annual spending rate is expected to fall within 3% to 5% of opening market value of endowments

In 2009, as a result of severe financial market losses, the University suspended the endowment distribution in order to preserve the underlying value of its endowments. The endowment reserve, so carefully and responsibly built up as a protective cushion, did its job by absorbing the brunt of the extreme volatility in the financial markets. The University decided not to erode the endowment capital further by suspending the endowment spending allocation so as not to change the baseline for future growth in our endowed funds. Without this suspension, the University could have impeded its ability to return to the usual endowment distribution levels as the investments supporting the endowments recover their value. Meanwhile, critical commitments such as endowed professorships and chairs, as well as endowed support for needs-based student aid were met from other sources of funds. In 2010, with an improvement in the financial markets, the endowment value increased to $1.44 billion. The University reinstated its annual endowment distribution and was also able to set aside $125.8 million in its endowment reserve.



The following diagram shows the preservation of capital and payout over a ten year period starting in 2001.

Endowment cumulative preservation of capital compared to cumulative inflation with total return and payout for the year ended April 30 (in millions)



At April 30, 2010, there were over 5,150 individual endowment funds, usually supported by an agreement between the University and a donor, or reflecting a collection of small donations with common restrictions. The total fair value of endowments increased by $150.9 million comprised of:

- $106.7 million investment gain on externally restricted endowments;
- $19.1 million investment gain on internally restricted endowments.
- $19.5 million of externally endowed donations;
- $4.2 million of endowed government grants and other;
- $1.4 million transfer from unrestricted deficit.

Investment Earnings

In 2010, the University reported investment income of $124.9 million (2009 – loss of $125.3 million) consisting of $96.2 million gain on endowments and $28.7 million gain on investments other than those held for endowments. The gain on endowments consisted of $19.1 million earned on internally restricted endowments, $62.4 million made available for spending and $14.7 million used to cover investment management fees and expenses.

Almost all of the University's investments are invested in the long-term capital appreciation pool (LTCAP) or the expendable funds investment pool (EFIP). The University establishes the investment risk and return objective for each of these pools, reflecting the liability requirements, and with the aim of producing steady, predictable returns for the University. It is important to note that, while the aim of the risk and return objectives is to produce steady, predictable investment returns for the University, there is nonetheless variability in investment returns on an annual basis, and that the actual investment return is a key determinant of whether the University records a net income or net loss for the fiscal year.

The University of Toronto Asset Management Corporation (UTAM) is a wholly owned investment management subsidiary of the University, governed by its own Board of Directors. UTAM develops and executes appropriate investment strategies and determines the policy asset mix, based on the risk and return objectives established by the University. A detailed review of investment performance, which is managed and measured on a calendar year basis by UTAM, is available on the UTAM web site at www.utam.utoronto.ca.

During 2010, the University conducted a wide-ranging review of the oversight and management of the University's investments, the recommendations of which will lead to fundamental changes in the oversight of the University's endowment and pension funds. The recommendations fall under the following three themes: closer alignment of management and governance with the University; clearer accountability; and stronger risk management.

LTCAP

The fair value of LTCAP was $1.61 billion at April 30, 2010, of which $1.38 billion was for endowments, representing 85.7% of the balance invested in LTCAP.

The investment risk and return targets for LTCAP are a 4.0% real investment return after investment fees and expenses and inflation, and a 10% standard deviation risk target, over a ten year period. This means that the real return is expected to be between minus 6% and 14%, two thirds of the time over a ten year period. The University's overriding objective with respect to investment performance is the achievement of this return target within the specified risk target. The return target was exceeded from 2004 to 2007 and in 2010.

The table below summarizes the 1-year LTCAP investment performance for years ending April 30 and compares it to the University's investment return target.

1-Year Annual Rates of Return

Year Ended April 30	LTCAP Annual Actual Return*	University Objective (4% plus CPI)
2010	**14.7%**	**5.8%**
2009	(31.0%)	4.4%
2008	(2.0%)	5.7%
2007	13.7%	6.2%
2006	15.8%	6.4%
2005	7.4%	6.4%
2004	23.1%	5.6%

**Returns are net of all investment fees and expenses. The 2004 to 2007 annual returns exclude returns on private investment interests.*

EFIP

The investment policy for EFIP reflects its three categories of funds: very short-term investments managed by the University, funds loaned internally to support capital projects and funds managed by UTAM. The return objective and risk tolerance for each category of EFIP funds is as follows:

	Risk Tolerance	Return Objective
Investments managed by U of T in a money market fund	Minimal risk	30-day Treasury bill return
Internal loans	Minimal risk	Appropriate spread over Government of Canada bond of similar duration
Funds managed by UTAM	Minimal risk (standard deviation measure is not appropriate for short-term durations)	1-year Treasury bill return + 50 basis points within minimal risk targets

The returns for the 2010 fiscal year were as follows:

	Fair Value at April 30, 2010	Total Return for Year Ended April 30, 2010
Investments managed by U of T in a money market fund	**$132.7 million**	**0.44%**
Internal loans	**$210.2 million**	**6.08%**
Funds managed by UTAM	**$773.7 million**	**1.62%**

The returns for the 2009 fiscal year were as follows:

	Fair Value at April 30, 2009	Total Return for Year Ended April 30, 2009
Investments managed by U of T in a money market fund	$ 72.9 million	2.7%
Internal loans	$196.6 million	6.07%
Funds managed by UTAM	$716.2 million	1.06%

(signed)
Catherine J. Riggall
Vice-President, Business Affairs

(signed)
Sheila Brown
Chief Financial Officer

Audited Financial Statements

April 30, 2010

STATEMENT OF ADMINISTRATIVE RESPONSIBILITY

The administration of the University is responsible for the preparation of the financial statements, the notes thereto and all other financial information contained in this Financial Report.

The administration has prepared the financial statements in accordance with Canadian generally accepted accounting principles developed by The Canadian Institute of Chartered Accountants. The administration believes the financial statements present fairly the University's financial position as at April 30, 2010 and the results of its operations and its cash flows for the year then ended. In order to achieve the objective of fair presentation in all material respects, reasonable estimates and judgments were employed. Additionally, management has ensured that financial information presented elsewhere in this Financial Report has been prepared in a manner consistent with that in the financial statements.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, the administration has developed and maintains a system of internal controls designed to provide reasonable assurance that University assets are safeguarded from permanent loss and that the accounting records are a reliable basis for the preparation of financial statements.

Hewitt Associates Corp. has been retained by the University in order to provide an estimate of the University's current year position for pension and other employee future benefits. Management has provided the valuation actuary with the information necessary for the completion of the University's report and retains ultimate responsibility for the determination and estimation of the pension and other employee future benefits liabilities reported.

Governing Council carries out its responsibility for review of the financial statements and this Financial Report principally through the Business Board and its Audit Committee. The majority of the members of the Audit Committee are not officers or employees of the University. The Audit Committee meets regularly with the administration, as well as the internal auditors and the external auditors, to discuss the results of audit examinations and financial reporting matters, and to satisfy itself that each party is properly discharging its responsibilities. The auditors have full access to the Audit Committee with and without the presence of the administration.

The financial statements for the year ended April 30, 2010 have been reported on by Ernst & Young LLP, Chartered Accountants, the auditors appointed by Governing Council. The auditors' report outlines the scope of their audit and their opinion on the presentation of the information included in the financial statements.

(signed)	*(signed)*
Catherine J. Riggall	David Naylor
Vice-President, Business Affairs	President

AUDITORS' REPORT

To the Members of Governing Council of University of Toronto:

We have audited the financial statements of **University of Toronto** as at and for the year ended April 30, 2010 comprising the following:

- Balance sheet
- Statement of operations
- Statement of changes in net assets
- Statement of cash flows

These financial statements are the responsibility of the administration of the University. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the administration, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
May 28, 2010.

Statement 1

UNIVERSITY OF TORONTO
BALANCE SHEET
April 30, 2010
(with comparative figures as at April 30, 2009)
(millions of dollars)

	2010	2009
ASSETS		
Current		
Cash and cash equivalents	**133.1**	66.8
Short-term investments (note 5)	**426.9**	511.6
Accounts receivable (note 5)	**105.8**	119.9
Inventories and prepaid expenses	**11.2**	14.4
	677.0	712.7
Long-term accounts receivable	**32.4**	30.8
Investments (note 5)	**1,965.0**	1,633.1
Capital assets, net (note 6)	**1,618.5**	1,532.4
	4,292.9	3,909.0
LIABILITIES		
Current		
Accounts payable and accrued liabilities (notes 5 and 11)	**234.4**	182.8
Deferred contributions (note 12)	**357.9**	328.4
	592.3	511.2
Accrued pension liability (note 4)	**161.0**	90.7
Employee future benefit obligation other than pension (note 4)	**329.7**	300.1
Series A senior unsecured debenture (note 7)	**158.8**	158.8
Series B senior unsecured debenture (note 8)	**199.1**	199.1
Series C senior unsecured debenture (note 9)	**74.7**	74.7
Series D senior unsecured debenture (note 10)	**74.4**	74.4
Other long-term debt (note 11)	**21.2**	51.9
Deferred capital contributions (note 13)	**881.7**	831.0
	2,492.9	2,291.9
NET ASSETS (Statement 3)		
Unrestricted deficit	**(186.8)**	(232.0)
Internally restricted (note 14)	**549.6**	562.8
Endowments (notes 15, 16 and 17)	**1,437.2**	1,286.3
	1,800.0	1,617.1
	4,292.9	3,909.0

Contingencies (note 24)

(See accompanying notes)

On behalf of Governing Council:

(signed)
John F. Petch
Chair

(signed)
David Naylor
President

UNIVERSITY OF TORONTO
STATEMENT OF OPERATIONS
FOR THE FISCAL YEAR ENDED APRIL 30, 2010

(with comparative figures for the year ended April 30, 2009)
(millions of dollars)

	2010	2009
REVENUES		
Government grants for general operations	**674.8**	646.0
Student fees	**701.3**	636.4
Government and other grants for restricted purposes (note 20)	**378.0**	408.7
Sales, services and sundry income	**253.1**	251.0
Investment income (loss) (notes 5 and 15)	**124.9**	(125.3)
Donations (note 19)	**57.7**	82.1
Contract research	**21.1**	25.8
	2,210.9	1,924.7
EXPENSES		
Salaries and benefits (note 4)	**1,319.5**	1,224.0
Materials and supplies	**200.4**	195.8
Scholarships, fellowships and bursaries	**132.1**	144.6
Amortization of capital assets	**124.1**	117.2
Cost of sales and services	**80.5**	80.5
Utilities	**51.3**	51.0
Repairs and maintenance	**92.1**	82.5
Travel and conferences	**38.6**	42.6
Interest on long-term debt	**32.4**	33.7
External contracted services	**43.2**	48.3
Telecommunications	**12.1**	12.5
Other	**39.2**	61.2
	2,165.5	2,093.9
NET INCOME (LOSS)	**45.4**	(169.2)

(See accompanying notes)

Statement 3

UNIVERSITY OF TORONTO
STATEMENT OF CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED APRIL 30, 2010
(with comparative figures for the year ended April 30, 2009)
(millions of dollars)

	Unrestricted deficit	**Internally restricted (note 14)**	**Endowments (note 15)**	**2010 Total**	2009 Total
Net assets, beginning of year	**(232.0)**	**562.8**	**1,286.3**	**1,617.1**	2,174.3
Net income (loss)	**45.4**			**45.4**	(169.2)
Net change in internally restricted (note 14)	**13.2**	**(13.2)**			
Investment gain (loss) on externally restricted endowments (note 15)			**106.7**	**106.7**	(461.7)
Externally endowed contributions					
- donations (note 19)			**19.5**	**19.5**	49.4
- grants and other			**4.2**	**4.2**	27.0
Transfer to internally restricted endowments (note 15)					
- investment income	**(19.1)**		**19.1**		
Transfer to endowments					
- donations	**(1.4)**		**1.4**		
Unrealized gain (loss) on swap contracts (note 5)	**7.1**			**7.1**	(2.7)
Net assets, end of year	**(186.8)**	**549.6**	**1,437.2**	**1,800.0**	1,617.1

(See accompanying notes)

UNIVERSITY OF TORONTO
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED APRIL 30, 2010

(with comparative figures for the year ended April 30, 2009)
(millions of dollars)

	2010	2009
OPERATING ACTIVITIES		
Net income (loss)	**45.4**	(169.2)
Add (deduct) non-cash items:		
Amortization of capital assets	**124.1**	117.2
Amortization of deferred capital contributions	**(61.1)**	(52.5)
Net capital (gains) losses from investments	**(83.8)**	184.0
Net change in accrued pension liability	**70.3**	2.8
Net change in employee future benefit obligation other than pension	**29.6**	43.1
Net change in other non-cash items (note 18)	**96.8**	(30.9)
	221.3	94.5
INVESTING ACTIVITIES		
Net sale (purchase) of short-term investments	**84.7**	(94.7)
Net purchase of investments	**(137.0)**	(113.6)
Purchase of capital assets	**(210.1)**	(197.8)
	(262.4)	(406.1)
FINANCING ACTIVITIES		
Contributions for capital asset purchases	**111.8**	165.4
Other long-term debt repayments	**(28.1)**	(2.2)
Endowment contributions		
- donations	**19.5**	49.4
- grants and other	**4.2**	27.0
	107.4	239.6
Net increase (decrease) in cash and cash equivalents during the year	**66.3**	(72.0)
Cash and cash equivalents, beginning of year	**66.8**	138.8
Cash and cash equivalents, end of year	**133.1**	66.8
Supplementary information		
Interest paid	**32.5**	33.7

(See accompanying notes)

UNIVERSITY OF TORONTO
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2010

1. Description

The Governing Council of the University of Toronto, which operates under the name University of Toronto (the "University"), is a corporation under the University of Toronto Act, a statute of the Legislative Assembly of Ontario. The University is an institution dedicated to providing post-secondary education and to conducting research. The University of Toronto's vision is to be a leader among the world's best public universities in its discovery, preservation and sharing of knowledge through its teaching and research and its commitment to excellence and equity.

These financial statements include the assets, liabilities, revenues, expenses and other transactions of all of the operations and organizations, including wholly owned subsidiaries, under the jurisdiction of Governing Council. These financial statements do not include the assets, liabilities and operations of Victoria University, The University of Trinity College, University of St. Michael's College, Sunnybrook Health Sciences Centre ("Sunnybrook") and the affiliated colleges under the memorandum of agreement with the Toronto School of Theology, each of which is a separate, non-controlled corporate body with separate financial statements.

The University holds title to the land and original buildings of Sunnybrook. The land and original buildings were acquired for the sum of one dollar and are used for hospital purposes and for related medical research and teaching purposes. The property is leased to the Board of Directors of Sunnybrook, a separate corporation, under a ground lease, which is perpetually renewable every 21 years at the option of the Board of Directors of Sunnybrook.

The University is a registered charitable organization and, as such, is exempt from income taxes under the Income Tax Act (Canada).

2. Summary of significant accounting policies and reporting practices

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

a) Change in accounting policies -

Effective May 1, 2009, the University adopted retroactively Canadian Institute of Chartered Accountants ("CICA") Section 1540: Cash Flow Statements which required the presentation of investing and financing activities in separate sections as well as other supplementary disclosures and reclassifications of certain numbers in the statement of cash flows.

b) Investments and investment income (loss) -

Investments are carried at fair value except for the real estate directly held by the University. Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based upon market conditions at a specific point in time and may not be reflective of future fair values.

The value of investments recorded in the financial statements is determined as follows:

1. Short-term notes and treasury bills are valued based on cost plus accrued income, which approximates fair value.

2. Bonds and publicly traded equities are determined based on the latest bid prices.

3. Investments in pooled funds are valued at their reported net asset value per unit.

4. Infrequently traded securities are based on quoted market yields or prices of comparable securities, as appropriate.

5. Real estate directly held by the University is valued at cost and, when donated, at the value determined through an appraisal process at the date of donation.

6. Private investment interests, which comprise private externally managed pooled funds with underlying investments in equities, debt, real estate assets and commodities, are determined based on the latest valuations provided by the external investment managers of the fund (typically December 31), adjusted for subsequent cash receipts and distributions from the fund, and cash disbursements to the fund through April 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative investments are not readily traded, their estimated values are subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Investment income (loss), which consists of interest, dividends, income distributions from pooled funds and realized and unrealized gains and losses, is recorded as revenue in the statement of operations except for investment income earned on deferred contributions and the amount in excess of what is made available for spending and losses on externally restricted endowments, which are recorded as a direct increase (decrease) to endowments.

c) Derivative financial instruments -

Derivative financial instruments are used to manage particular market and currency exposures for risk management purposes primarily with respect to the University's investments and as a substitute for more traditional investments. Derivative financial instruments and synthetic products that may be employed include debt, equity and currency futures, options, swaps and forward contracts. These contracts are generally supported by liquid assets with a fair value approximately equal to the fair value of the instruments underlying the derivative contract. Investment dealer quotes or quotes from a bank are available for substantially all of the University's derivative financial instruments.

The University accounts for interest rate swap contracts as hedges when they qualify for hedge accounting. Hedges are documented at inception, detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the liability being hedged, the type of derivative used and how effectiveness is measured. The derivative must be highly effective in accomplishing the objective of offsetting changes in cash flows attributable to the risk being hedged both at inception and over the life of the hedge. For derivatives in hedging relationships, the effective portion of the gain or loss is recorded as a direct increase (decrease) in net assets, and the ineffective portion, if any, is recognized in the statement of operations. Derivative financial instruments that do not qualify for hedge accounting are carried at fair value, with changes in fair value during the year recorded in the statement of operations. When a derivative financial instrument no longer qualifies as an effective hedge, hedge accounting is discontinued prospectively and the cumulative gain or loss recognized previously in net assets in respect of the hedging relationship is recognized in the statement of operations over the remaining useful life of the hedged item using the effective interest rate method. When the derivative financial instrument or the hedge item is terminated or sold, hedge accounting is discontinued and the cumulative gain or loss recognized previously in net assets in respect of the hedging relationship is immediately recognized in the statement of operations under investment income (loss).

d) Cash and cash equivalents -

Cash and cash equivalents consist of balances with banks and investments in money market funds. Cash and investments meeting the definition of cash and cash equivalents held for investing rather than liquidity purposes are classified as investments.

e) Inventory valuation -

Retail inventories are carried at the lower of cost, determined using the first-in, first-out method, and net realizable value.

f) Employee benefit plans -

The University maintains defined benefit plans providing pension, other retirement and post-employment benefits for substantially all of its employees.

Pension plan assets are valued at fair value for purposes of calculating expected return on plan assets. The cost of pension and other post-employment benefits (primarily medical benefits and dental care) related to the employees' current service is charged to income annually. The cost is computed on an actuarial basis using the projected benefits prorated on service method, and using estimates of the usage frequency and cost of services covered and management's best estimates of investment yields, salary changes, withdrawals, mortality rates and expected health care costs. The University's actuarial gains or losses (resulting from factors such as changes in actuarial assumptions and experience gains or losses), past service costs arising from plan amendments and transitional assets/obligations are amortized over the average remaining service life of active employees, currently 14 years (2009 – 14 years). A valuation allowance is recorded against an accrued benefit asset if the asset, less unamortized past service costs and unamortized actuarial losses, exceeds the present value of future service costs of the current active employees. Liabilities are discounted using current interest rates on long-term bonds.

g) Capital assets -

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Amortization is provided on a straight-line basis using the following annual rates:

Buildings	2.5%
Equipment and furnishings	5% - 20%
Library books	20%

Contributed rare books and other collections are expensed in the year received.

h) Senior unsecured debentures and other long-term debt -

Senior unsecured debentures and other long-term debt are initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method. Unsecured debentures and other long-term debt are reported net of related premiums, discounts and transaction issue costs.

i) Revenue recognition -

The University follows the deferral method of accounting for contributions, which include donations and government grants. Contributions externally restricted for purposes other than endowment are recognized as revenue in the year in which the related expenses are recognized. Externally restricted contributions for amortizable capital assets are deferred and amortized over the lives of the related capital assets. Deferred contributions and amortization of capital contributions recognized as revenue in the current year are first presented in the statement of operations as donations and investment income to the extent that restricted amounts have been received in the current year excluding amounts recorded as a direct increase to endowments. Any difference is recorded as government and other grants for restricted purposes. Endowment contributions and contributions of non-amortizable capital assets are recognized as direct increases in net assets in the year in which they are received. The University actively fundraises and unrestricted donations and contributed rare books and other collections are recorded when received since pledges are not legally enforceable claims. Student fees are recognized as revenue when courses and seminars are held. Sales and services revenues are recognized at point of sale or when the service has been provided.

j) Foreign currency translation -

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at year end. Operating revenues and expenses are translated at exchange rates in effect on the date of the transaction. Gains or losses arising from these translations are included in income except to the extent they relate to investments, in which case they are recognized in the same manner as investment income (loss).

k) Accounting estimates -

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates relate to the assumptions used in the determination of the fair value of financial instruments and the valuation of pension and other retirement benefit obligations. Actual results could differ from those estimates.

l) Contributed services and materials -

Volunteers contribute an indeterminable number of hours per year. Because of the difficulty of determining their fair value, contributed services and materials are not recognized in the financial statements.

m) Financial instruments -

The University has chosen to apply CICA 3861: Financial Instruments – Disclosure and Presentation in place of CICA 3862: Financial Instruments – Disclosures and CICA 3863: Financial Instruments – Presentation.

n) Allocation of costs -

The University allocates salary and benefit costs related to personnel who work directly on managing capital projects to construction in progress and also allocates a project management fee based on 3.5% of construction, furnishings and equipment and landscaping costs.

3. Capital management

In managing capital, the University focuses on liquid resources available for operations. Its liquid resources are managed through the University's expendable funds investment pool ("EFIP"). The University's objective is to have sufficient liquid resources to continue operating even if adverse financial events were to occur and to provide it with the flexibility to take advantage of opportunities that will advance its mission. The need for sufficient liquid resources is considered in the preparation of its annual operating and capital budgets with actual operating results compared to the budgets on a regular basis and by the monitoring and forecasting of cash flows on a daily basis. The University attempts to minimize the use of its line of credit of $25 million which can be used in the event that sufficient cash flow is not available to cover operating and capital expenditures. In addition, the University can issue unsecured debentures or enter into other long-term debt to assist with the financing of capital assets and annually sets its maximum external borrowing capacity to 40% of net assets averaged over five years. As at April 30, 2010, the University has met its objective of having sufficient liquid resources to meet its current obligations and external borrowing was at 27.3% of net assets averaged over 5 years.

4. Employee benefit plans

The University has a number of funded and unfunded defined benefit plans that provide pension, other retirement and post-employment benefits to most of its employees. Its defined benefit pension plans (including the supplemental retirement arrangement) are based on years of service and the highest average salary received in any 36 months. Pension benefits will increase annually by 75% of the increase in the

Consumer Price Index ("CPI") to a maximum CPI increase of 8%, plus 60% of the increase in CPI in excess of 8%.

Other retirement benefit plans are contributory health care plans with retiree contributions adjusted annually, such as extended health, semi-private and dental care. A plan also provides for long-term disability income benefits after employment, but before retirement.

The latest actuarial valuation for the pension plans and for other retirement benefit plans was performed as of July 1, 2009. The next required actuarial valuations for the registered plans will be July 1, 2011. The University measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at April 30 of each year. The employee benefits expense for the year includes pension expense of $168.1 million (2009 - $94.2 million) and other retirement benefits expense of $36.8 million (2009 - $49.7 million).

Information about the University's defined benefit plans as at April 30 is as follows:

(millions of dollars)

	2010		2009	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Accrued benefit obligation	**3,489.0**	**436.5**	2,764.8	318.5
Fair value of plan assets	**2,222.1**	**36.2**	1,980.8	40.6
Plan deficit	**(1,266.9)**	**(400.3)**	(784.0)	(277.9)
Amount recorded as a liability	**(161.0)**	**(329.7)**	(90.7)	(300.1)
Unamortized net actuarial gain (loss)	**(1,150.2)**	**(63.3)**	(756.7)	36.1
Unamortized transitional asset (obligation)	**127.6**	**(41.1)**	157.3	(51.6)
Unamortized past service cost	**(83.3)**	**(2.4)**	(93.9)	(2.9)
Plan assets recorded as investments		**36.2**		40.6
Plan deficit	**(1,266.9)**	**(400.3)**	(784.0)	(277.9)

In addition to the plan assets, the University has set aside $152.0 million (2009 - $131.0 million) as internally restricted net assets at April 30, 2010 related to its pension and supplemental retirement arrangement obligations (note 14). The significant actuarial assumptions adopted in measuring the University's accrued benefit obligation and benefit cost are as follows:

	2010		2009	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Accrued benefit obligation:				
Discount rate	**6.00%**	**6.00%**	7.75%	7.75%
Rate of compensation increase	**4.25%**	**4.25%**	4.25%	4.25%
Rate of inflation	**2.25%**	**2.25%**	2.25%	2.25%
Benefit cost:				
Discount rate	**7.75%**	**7.75%**	6.00%	6.00%
Expected long-term rate of return on plan assets	**6.25%**	**N/A**	6.25%	N/A
Rate of compensation increase	**4.25%**	**4.25%**	4.25%	4.25%
Rate of inflation	**2.25%**	**2.25%**	2.25%	2.25%

For measurement purposes, an 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2010. The rate of increase was assumed to decrease gradually to 5.0% by 2017 and remain at that level thereafter.

The pension benefit plans' assets are invested as follows:

	2010	2009
Equity securities	**52.5%**	53.8%
Debt securities	**24.4%**	14.5%
Pooled funds - equity	**22.8%**	23.6%
Other	**0.3%**	8.1%
Total	**100.0%**	100.0%

The table below outlines the funding provided by the University and its employees and the benefits paid under the University's defined benefit plans:

	(millions of dollars)			
	2010		2009	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Funding by employer	**97.9**	**16.9**	91.4	15.8
Funding by employees	**36.3**	**4.5**	34.8	3.5
Benefits paid	**160.4**	**18.5**	157.6	17.5

5. Investments

Direct investments are classified by asset-mix category based on the intent of the investment strategies of the underlying portfolio. This classification required $436.4 million (2009 - $285.9 million) of pooled funds, $55.5 million (2009 - $46.8 million) in hedge funds and $264.7 million (2009 - $257.4 million) of cash, money market funds, short-term notes and treasury bills set aside related to derivative contracts to be reclassified to their appropriate investment category. The fair values of investments are as follows:

	(millions of dollars)	
	2010	2009
Cash, money market funds, short-term notes and treasury bills	**426.9**	511.6
Government and corporate bonds	**628.0**	466.4
Canadian equities	**233.6**	157.4
United States equities	**229.2**	203.3
Other international equities	**270.0**	212.8
Hedge funds	**280.6**	308.1
Private equity and debt interests	**239.7**	201.4
Real asset interests	**83.9**	83.7
	2,391.9	2,144.7
Less amounts reported as:		
Short-term investments	**426.9**	511.6
	1,965.0	1,633.1

The University's investments are managed using two pools. The long-term capital appreciation pool ("LTCAP") mainly includes endowment funds and all other funds, including cash and cash equivalents are managed in EFIP. The asset mix for each pool is as follows:

	(millions of dollars)			
	2010		2009	
	EFIP	**LTCAP**	EFIP	LTCAP
Cash, money market funds, short-term notes and treasury bills	**556.3**	**3.7**	492.2	86.2
Government and corporate bonds	**302.4**	**325.6**	232.4	234.0
Canadian equities	**0.2**	**233.4**	0.2	157.2
United States equities		**229.2**		203.3
Other international equities		**270.0**		212.8
Hedge funds	**34.6**	**246.0**	47.9	260.2
Private equity and debt interests		**239.7**		201.4
Real asset interests		**83.9**		83.7
	893.5	**1,631.5**	772.7	1,438.8

In 2010, the University's investment income of $124.9 million recorded in the statement of operations consists of income related to investments held for endowments of $96.2 million (note 15) and income of $28.7 million on investments other than those held for endowments.

In 2009, the University's investment loss of $125.3 million recorded in the statement of operations consisted of a loss related to investments held for internally restricted endowments of $83.3 million (note 15) and a loss of $42.0 million on investments other than those held for endowments.

During the year, the University recognized an investment loss of $6.6 million (2009 – $39.3 million) as a change in fair value that was estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates for certain of its investments. Management believes there are no other reasonable assumptions for these investments which would generate any material changes in investment income (loss).

Risk management

Risk management relates to the understanding and active management of the risks associated with all areas of the University's investments. Investments are primarily exposed to market risk which encompasses a variety of financial risks, such as foreign currency risk, interest rate risk, price risk, and credit risk. Significant volatility in interest rates, equity values and the value of the Canadian dollar against the currencies in which the University's investments are held can significantly impact the value of these investments. To manage these risks within reasonable risk tolerances, the University, through the University of Toronto Asset Management Corporation, has formal policies and procedures in place governing asset mix among equity, fixed income and alternative assets, requiring diversification within categories, and setting limits on the size of exposure to individual investments and counterparties. In addition, derivative instruments are used in the management of these risks (see below). To manage foreign currency risk, a 50% hedging policy has been implemented for the University's investments beginning on January 1, 2009. Previous to this date, the University had a 100% hedging policy for its foreign currency risk. Credit risk of financial instruments is the risk of loss arising from the potential failure of a counterparty, debtor or issuer to honour its contractual obligations. At April 30, 2010, $418.0 million (2009 – $294.2 million) or 66.6% (2009 – 80.2%) of government and corporate bonds have AAA or AA credit ratings.

Derivative financial instruments

Description

The University has entered into equity index futures contracts which oblige it to pay the difference between a predetermined amount and the market value of certain equities when the market value is less than the predetermined amount, or receive the difference when the market value is more than the predetermined amount.

The University has entered into foreign currency forward contracts to minimize exchange rate fluctuations and the resulting uncertainty on future financial results. All outstanding contracts have a remaining term to maturity of less than one year. The University has significant contracts outstanding held in the U.S. dollar, Euro, Japanese yen and British pound, among others.

The University has entered into interest rate swap contracts in order to manage the interest rate cash flow exposure associated with certain long-term debt obligations. The contracts have the effect of converting the floating rate of interest on certain long-term debt to a fixed rate. These contracts are accounted for as hedges.

The notional amounts of the derivative financial instruments do not represent amounts exchanged between parties and are not a measure of the University's exposure resulting from the use of financial instrument contracts. The amounts exchanged are based on the applicable rates applied to the notional amounts.

Risks

The University is exposed to credit-related losses in the event of non-performance by counterparties to these financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings.

Terms and conditions

The notional and fair values of the financial instruments are as follows:

	(millions of dollars)			
	2010		2009	
	Notional value	**Fair value**	Notional value	Fair value
Foreign currency forward contracts				
- U.S. dollars	**441.7**	**(1.0)**	606.0	9.4
- International	**70.5**	**1.5**	103.1	3.8
		0.5		13.2
Equity and commodity index futures contracts				
- United States	**317.7**	**(4.1)**	311.3	12.1
		(4.1)		12.1
Interest rate swap contracts (note 11)				
- Designated as hedges	**8.7**	**(1.2)**	31.0	(8.2)
- Not designated as hedges	**20.8**	**(4.4)**		
		(5.6)		(8.2)

The fair value of the foreign currency forward and equity and commodity index futures contracts of negative \$3.6 million (2009 – positive \$25.3 million) is reported as \$1.7 million (2009 - \$26.2 million) in accounts receivable and \$5.3 million (2009 - \$0.9 million) in accounts payable and accrued liabilities.

Certain interest rate swap agreements are designated as hedges for accounting purposes, which results in interest expense related to certain long-term debt to be recorded in the financial statements at the hedged rates rather than at the contractual interest rates. These interest rate swap contracts result in the University fixing a weighted average long-term interest rate of 6.71% (2009 - 6.71%) on certain debt obligations instead of paying a weighted average short-term floating interest rate of 0.52% (2009 – 2.38%). These long-term contracts were entered into in years when interest rates were higher than current rates. These swap agreements require a periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The cash settlement is the difference between the contractual rate of interest and the current market rate, based on a notional amount. The fair value of the interest rate swap contracts of $1.2 million (2009 - $8.2 million) is included in other long-term debt (note 11). The decrease in the negative fair value of these interest swap contracts designated as hedges of $0.8 million (2009 – increase of $2.7 million) is recorded as a decrease in unrestricted deficit in the statement of changes in net assets.

During the year, interest rate swap contracts with a notional value of $20.8 million were no longer designated as a hedge due to the settlement of the related loans. The fair value of $6.3 million previously recognized as a direct decrease in net assets together with the change in fair value of $1.9 million (net loss of $4.4 million) is included in investment income (loss) in the statement of operations.

Uncalled commitments

As at April 30, 2010, approximately 12.2% (2009 – 12.2%) of the University's investment portfolio is invested in private funds managed by third-party managers. These private funds typically take the form of limited partnerships managed by a General Partner. The legal terms and conditions of these private investment funds, which cover various areas of private equity investments and real assets investments (e.g., real estate, infrastructure) require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at April 30, 2010, the University had uncalled commitments of approximately $146.1 million (2009 - $240.6 million). The capital committed is called by the manager over a pre-defined investment period, which varies by fund, but is generally about three to five years from the date the fund closes. In practice, for a variety of reasons, the total amount committed to a fund is very rarely all called. The University makes commitments to private investment funds from time to time as part of an overall investment program centered on such funds.

6. Capital assets

(millions of dollars)

	2010		2009	
	Total cost	**Accumulated amortization**	Total cost	Accumulated amortization
Land	**72.2**		71.8	
Buildings (note 11)	**1,956.0**	**725.4**	1,836.5	684.0
Equipment and furnishings	**1,134.6**	**875.9**	1,074.2	822.6
Library books	**475.5**	**418.5**	446.2	389.7
	3,638.3	**2,019.8**	3,428.7	1,896.3
Less accumulated amortization	**(2,019.8)**		(1,896.3)	
Net book value	**1,618.5**		1,532.4	

The University develops replacement property values of buildings and contents for insurance purposes using various sources and valuation methods which conform to insurance industry practice and standards. Fine art and rare book collections are valued by the appropriate University officers. The insured replacement value of buildings is approximately $3.8 billion and contents is approximately $2.1 billion, which includes library books of approximately $0.8 billion.

As at April 30, 2010, the University had $126.5 million (2009 - $35.5 million) in construction in progress that was included in buildings.

7. Series A senior unsecured debenture

On July 18, 2001, the University issued Series A senior unsecured debenture in the aggregate principal amount of $160.0 million at a price of $999.62 for proceeds of $159.9 million. The debenture bears interest at 6.78%, which is payable semi-annually on January 18 and July 18 with the principal amount to be repaid on July 18, 2031. The proceeds of the issuance have been primarily used to finance capital projects including real estate acquisitions and the construction of student residences and parking facilities. The University has spent all of the proceeds of the debenture. The fair value of the debenture at April 30, 2010 was $193.4 million (2009 - $199.4 million) compared to a carrying value of $158.8 million (2009 - $158.8 million).

8. Series B senior unsecured debenture

On December 15, 2003, the University issued Series B senior unsecured debenture in the aggregate principal amount of $200.0 million at a price of $1,000 for proceeds of $200.0 million. The debenture bears interest at 5.841%, which is payable semi-annually on June 15 and December 15 with the principal amount to be repaid on December 15, 2043. The proceeds of the issuance have been primarily used to finance capital projects. The University has spent all of the proceeds of the debenture. The fair value of the debenture at April 30, 2010 was $221.8 million (2009 - $229.6 million) compared to a carrying value of $199.1 million (2009 - $199.1 million).

9. Series C senior unsecured debenture

On November 16, 2005, the University issued Series C senior unsecured debenture in the aggregate principal amount of $75.0 million at a price of $1,000 for proceeds of $75.0 million. The debenture bears interest at 4.937%, which is payable semi-annually on May 16 and November 16 with the principal amount to be repaid on November 16, 2045. The proceeds of the issuance have been primarily used to finance capital projects. The University has spent all of the proceeds of the debenture. The fair value of the debenture at April 30, 2010 was $72.5 million (2009 - $75.1 million) compared to a carrying value of $74.7 million (2009 - $74.7 million).

10. Series D senior unsecured debenture

On December 13, 2006, the University issued Series D senior unsecured debenture in the aggregate principal amount of $75.0 million at a price of $1,000 for proceeds of $75.0 million. The debenture bears interest at 4.493%, which is payable semi-annually on June 13 and December 13 with the principal amount to be repaid on December 13, 2046. The proceeds of the issuance have been primarily used to finance capital projects. The University has spent all of the proceeds of the debenture. The fair value of the debenture at April 30, 2010 was $66.7 million (2009 - $69.1 million) compared to a carrying value of $74.4 million (2009 - $74.4 million).

11. Other long-term debt

Other long-term debt consists of mortgages of $12.8 million (2009 - $13.3 million) maturing from 2010 to 2020 against which the related properties are pledged as security, term loans of $10.0 million (2009 - $32.7 million) maturing from 2010 to 2020, of which the current portion of $7.2 million (2009 - $2.3 million) is included in accounts payable and accrued liabilities, and the fair value of all interest rate swap contracts of $5.6 million (2009 - $8.2 million) (note 5). The weighted average effective interest rate of the mortgages and term loans, after giving effect to the interest rate swaps, was 7.24% (2009 - 7.24%) and 6.21% (2009 - 6.61%), respectively. The fair value of other long-term debt at April 30, 2010 was $28.4 million (2009 - $54.2 million) compared to a carrying amount of $28.4 million (2009 - $54.2 million).

Anticipated requirements to meet the principal portion of the other long-term debt repayments over the next five years are as follows: 2011 - $7.2 million, 2012 - $1.6 million, 2013 - $1.5 million, 2014 - $1.5 million, 2015 - $1.6 million.

12. Deferred contributions

Deferred contributions represent unspent externally restricted grants and donations. Changes in the deferred contributions balance are as follows:

	(millions of dollars)	
	2010	2009
Balance, beginning of year	**328.4**	346.1
Grants, donations and investment income	**467.1**	480.5
Recognized as revenue during the year	**(437.6)**	(498.2)
Balance, end of year	**357.9**	328.4

The deferred contributions will be spent as follows:

	(millions of dollars)	
	2010	2009
Research	**194.4**	191.3
Student aid	**54.3**	38.2
Other restricted purposes	**109.2**	98.9
	357.9	328.4

13. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations as government and other grants for restricted purposes. The changes in the deferred capital contributions balance for the year are as follows:

	(millions of dollars)	
	2010	2009
Balance, beginning of year	**831.0**	718.1
Less amortization of deferred capital contributions	**(61.1)**	(52.5)
Add contributions received for capital asset purchases	**111.8**	165.4
Balance, end of year	**881.7**	831.0

This balance represents:

	(millions of dollars)	
	2010	2009
Amount used for the purchase of capital assets	**789.6**	698.4
Amount to be spent on capital assets	**92.1**	132.6
	881.7	831.0

14. Internally restricted net assets

	(millions of dollars)	
	2010	2009
Investment in capital assets	**413.2**	383.8
Operating fund reserves		
Net divisional reserves carried forward	**283.6**	241.3
Employee future benefits		
Pensions	**(161.0)**	(90.7)
Other	**(293.5)**	(259.5)
Supplemental retirement arrangement (note 4)	**127.2**	118.6
Pension plan reserve (note 4)	**24.8**	12.4
Departmental trust funds	**68.9**	67.7
Alterations and renovations	**67.1**	62.9
Research overhead	**14.0**	13.7
Other funds	**5.3**	12.6
	549.6	562.8

Internally restricted net assets are funds set aside that reflect the application of Governing Council policy as follows:

a) Investment in capital assets -

Investment in capital assets represents the amount of net assets that are not available for other purposes because they have been invested in capital assets. It consists of unamortized capital assets purchased with unrestricted resources (net of debt) plus the carrying amount of capital assets purchased with unrestricted resources (net of debt) that will not be amortized.

b) Operating fund reserves -

Divisions are permitted to carry forward unspent funds at the end of each year. These amounts include reserves for operating contingencies, reserves for future commitments and other employee future benefit costs and unfilled purchase orders that have been committed for goods or services to be received in the following year. These reserves have been reduced by the vacation pay accrual, representing the unfunded cost of vacation credits earned but not taken by administrative employee groups at year end, and by the voluntary early retirement liability for faculty and librarians, representing the unfunded liability of voluntary early retirement incentive costs paid to or committed to specific faculty members. This category has also been reduced by the unfunded portion of employee future benefits obligations offset by funds set aside to meet the future obligations of the supplemental retirement arrangement.

c) Departmental trust funds -

These funds represent departmental trust funds available for spending by divisions with no external restrictions.

d) Alterations and renovations -

These represent unspent funds in respect of approved alterations and renovations projects in progress at the end of the fiscal year less amounts spent without funding on hand.

e) Research overhead -

Research overhead recoveries from customers in calendar year 2009 are appropriated and available for spending in the following fiscal year.

f) Other funds -

These funds are to support various initiatives to enhance the quality, structure and organization of programs and activities as well as the restructuring needed to adapt to the long-range budget plan and to improve the productivity of physical assets.

15. Endowments

Endowments consist of externally restricted donations received by the University and internal resources transferred by Governing Council, in the exercise of its discretion. With respect to the latter case, Governing Council may have the right to subsequently decide to remove the designation. The endowment principal is required to be maintained intact over time subject to the University's preservation of capital policy. The investment income generated from endowments must be used in accordance with the various purposes established by donors or Governing Council. The University ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided.

Investment income on endowments, which comprises interest, dividend income and realized and unrealized gains and losses, is recorded in the statement of operations when this income is available for spending at the discretion of the University or is available for spending as conditions have been met. University policy has been established with the objective of protecting the real value of the endowments by limiting the amount of income made available for spending and requiring the reinvestment of income not made available. The investment policy has set the real rate of return objective at 4% with the aim of providing steady, predictable investment returns. The amount made available for spending must normally fall between a range of 3% to 5% of the fair value per unit of the endowment pool. In any particular year, should net investment income be insufficient to fund the amount to be made available for spending or if the investment return is negative, the amount that is made available for spending is funded by the accumulated reinvested income. However, for individual endowment funds without sufficient accumulated reinvestment income, endowment capital is used in the current year. This amount is expected to be recovered by future net investment income. In fiscal 2010, $7.26 per unit of LTCAP was made available for spending, representing 5.0% of the opening fair value per unit of the endowment pool. Due to poor investment markets, no amount was made available for spending from endowments in fiscal 2009.

In 2010, investment income of $188.2 million (net of fees and expenses of $14.7 million) was earned on endowments, of which $62.4 million was made available for spending and recorded as investment income, $19.1 million was the preservation of capital on internally restricted endowments, which was recorded as investment income and then transferred from unrestricted net assets to endowments, and the balance of $106.7 million was the preservation of capital on externally restricted endowments which was recorded as a direct increase to endowments.

In 2009, there was an investment loss of $461.7 million on externally restricted endowments which was deducted from endowment net assets and an $83.3 million loss on internally restricted endowments which was recorded as part of investment loss in the statement of operations and was offset by a transfer from internally restricted endowments to unrestricted deficit.

Net assets restricted for endowments consist of the following:

	(millions of dollars)	
	2010	2009
Externally restricted endowments	**1,212.0**	**1,081.2**
Internally restricted endowments	**225.2**	**205.1**
	1,437.2	**1,286.3**

16. Ontario Student Opportunity Trust Fund

Externally restricted endowments include grants provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund matching program to award student aid as a result of raising an equal amount of endowed donations. The University also matched certain of these endowed donations.

Phase 1:

	(thousands of dollars)	
	2010	2009
Endowments at book value, beginning of year	**286,116**	354,144
Transfer from (to) expendable funds	**8,280**	(68,028)
Endowments at book value, end of year	**294,396**	286,116
Cumulative unrealized losses	**(31,959)**	(46,771)
Endowments at fair value, end of year	**262,437**	239,345
Expendable funds available for awards, beginning of year	**12,322**	23,590
Realized investment income (loss)	**20,244**	(68,025)
Transfer from (to) endowment balance	**(8,280)**	68,028
University contribution	**2,073**	
Bursaries awarded	**(7,149)**	(11,271)
Expendable funds available for awards, end of year	**19,210**	12,322
Number of award recipients	**2,871**	3,657

Phase 2:

	(thousands of dollars)			
	2010		2009	
	University of Toronto	**Affiliates**	University of Toronto	Affiliates
Endowments at book value, beginning of year	**38,579**	**4,624**	42,486	5,180
Transfer from (to) expendable funds	**994**	**355**	(3,909)	(556)
University matching			2	
Endowments at book value, end of year	**39,573**	**4,979**	38,579	4,624
Cumulative unrealized losses	**(8,059)**		(9,838)	
Endowments at fair value, end of year	**31,514**		28,741	
Expendable funds available for awards, beginning of year	**1,002**	**168**	2,328	189
Realized investment income (loss)	**2,431**	**497**	(3,907)	(414)
Transfer from (to) endowment balance	**(994)**	**(355)**	3,909	556
University contribution	**508**			
Bursaries awarded	**(788)**	**(129)**	(1,328)	(163)
Expendable funds available for awards, end of year	**2,159**	**181**	1,002	168
Number of award recipients	**371**	**75**	508	92

Book value in this note represents contributions received plus a portion of realized investment income.

The expendable funds available for awards are included in deferred contributions (note 12) on the balance sheet.

The endowments and expendable balances of the affiliates are not included in these financial statements.

17. Ontario Trust for Student Support

Externally restricted endowments include grants provided by the Government of Ontario from the Ontario Trust for Student Support matching program to award student aid as a result of raising an equal amount of endowed donations. The University also matched certain of these endowed donations.

	(thousands of dollars)			
	2010		2009	
(for the year ended March 31)*	**University of Toronto**	**Affiliates**	University of Toronto	Affiliates
Endowments at book value, beginning of year	**46,177**	**8,104**	49,020	7,352
Donations received	**3,087**	**366**	1,591	759
Government matching received	**4,071**	**545**	4,680	643
University matching	**160**	**76**	85	63
Transfer from (to) expendable funds	**1,405**	**464**	(9,199)	(713)
Endowments at book value, end of year	**54,900**	**9,555**	46,177	8,104
Cumulative unrealized losses	**(10,087)**		(12,246)	
Endowments at fair value, end of year	**44,813**		33,931	
Expendable funds available for awards, beginning of year	**501**	**(143)**	1,300	(14)
Realized investment income (loss)	**3,027**	**937**	(8,738)	(715)
Donations received	**18**	**3**	10	
University matching and contribution	**972**			
Transfer from (to) endowment balance	**(1,405)**	**(464)**	9,199	713
Bursaries awarded	**(1,106)**	**(133)**	(1,270)	(127)
Expendable funds available for awards, end of year	**2,007**	**200**	501	(143)
Number of award recipients	**413**	**73**	506	59

*As per Ministry of Training, Colleges and Universities guidelines.

Book value in this note represents contributions received plus a portion of realized investment income.

The expendable funds available for awards are included in deferred contributions (note 12) on the balance sheet.

The endowments and expendable balances of the affiliates are not included in these financial statements.

18. Net change in other non-cash items

The net change in other non-cash items is as follows:

	(millions of dollars)	
	2010	2009
Accounts receivable	**12.5**	**(33.9)**
Inventories and prepaid expenses	**3.2**	**1.4**
Deferred contributions	**29.5**	**(17.7)**
Accounts payable and accrued liabilities	**51.6**	**19.3**
	96.8	**(30.9)**

19. Donations

During the year, the University received donations of $77.2 million (2009 - $131.5 million). Of that amount, $19.5 million (2009 - $49.4 million) is recorded as a direct addition to endowments in accordance with the accounting policy and is not recorded as donations revenue.

20. Government and other grants for restricted purposes

During the year, the University received $358.5 million (2009 - $373.2 million) of government and other grants for research and $99.7 million (2009 - $130.7 million) for capital infrastructure, of which $378.0 million (2009 - $408.7 million) was recorded as revenue and $80.2 million (2009 - $95.2 million) was deferred.

21. Related entity

The University is a member, with ten other universities, of a joint venture called the Tri-universities Meson Facility ("TRIUMF"), Canada's national laboratory for particle and nuclear physics located on the University of British Columbia ("UBC") campus. TRIUMF is an unincorporated registered charity and each university has an undivided 1/11 interest in its assets, liabilities and obligations. The land and buildings it occupies are owned by UBC. The facilities and its operations are funded by Federal government grants and the University has made no direct financial contribution to date. TRIUMF's net assets are not contemplated to be and are not readily realizable by the University. The University's interest in the assets, liabilities and results of operations are not included in these financial statements (see also note 24(b)).

The following financial information at March 31 for TRIUMF was prepared in accordance with Canadian generally accepted accounting principles except that all capital assets and related provisions for decommissioning costs, if any, are expensed in the year in which the costs are incurred.

	(millions of dollars)	
	2010 (unaudited)	2009
Total assets	**17.0**	17.1
Total liabilities	**14.0**	13.7
Total fund balances	**3.0**	3.4
Revenues	**63.3**	59.8
Expenses	**63.7**	61.6
Deficiency of revenues over expenses	**(0.4)**	(1.8)

22. First Generation Pilot Project Initiatives

For the period from April 1, 2008 to April 30, 2010, the University's financial statements include expenditures totaling $254,367 for the purpose of carrying out the First Generation Pilot Project Initiatives. The goal of this project is to increase the awareness of the benefits of post-secondary education of first generation students thereby increasing their participation, retention and graduation rates.

23. Other commitments

a) The estimated cost to complete construction and renovation projects in progress at April 30, 2010, which will be funded by government grants, donations and operations, is approximately $275.6 million (2009 - $191.3 million).

b) The annual payments under various operating leases are approximately $17.2 million.

24. Contingencies

a) The University has a program under which it guarantees bank loans to faculty and staff members to assist in the purchase or refinancing of their homes. The University holds mortgages as collateral security against such guarantees. At April 30, 2010, the amount of loans guaranteed was $7.9 million (2009 - $8.4 million). The University's estimated exposure under these guarantees is not material.

b) The members of the TRIUMF joint venture and the Canadian Nuclear Safety Commission ("CNSC") approved a decommissioning plan which requires all members to be severally responsible for their share of the decommissioning costs, which were estimated at $44.0 million as of November 2007, as well as provide financial covenants to the CNSC for the amount of these costs. While there are no current intentions of decommissioning the facilities, the University's share was estimated at $4.0 million at April 30, 2010. TRIUMF has put in place a plan for funding the cost of decommissioning which does not require any payments from the joint venture partners.

c) The nature of the University's activities is such that there are usually claims or potential claims in prospect at any one time. At April 30, 2010, the University believes it has valid defenses and appropriate insurance coverage in place on certain claims which are not expected to have a material impact on the University's financial position. There also exist other claims or potential claims where the ultimate outcome cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the amount of the liability is able to be estimated or adjustments to the amount recorded are determined to be required.

d) The University was formerly a member of a reciprocal exchange of insurance risks in association with 56 other Canadian universities. This self-insurance co-operative is named the Canadian Universities Reciprocal Insurance Exchange ("CURIE") and involves a contractual agreement to share the insurable property and liability risks of member universities arising during the period of membership. Effective January 1, 2008, the University terminated its membership in CURIE and obtained insurance coverage in the commercial market.

   As a consequence, the University is no longer eligible to receive its 8.5% pro-rata share of any potential future surplus distribution and will continue to share in any deficits generated by claims arising during the University's period of membership in CURIE. As at December 31, 2009, the latest financial statements available, CURIE had a surplus of $32.0 million (2008 - $17.7 million). The University believes it will not have to make any payments to CURIE.

e) The University is currently undertaking a process to negotiate a new job evaluation system with one of the unions representing administrative staff. Included in this process is consideration of what, if any, salary increases are required to comply with the Ontario Pay Equity Act. At this point in time, the liability, if any, that might exist as at April 30, 2010 in connection with salary increases payable as at that date is not able to be estimated.

25. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2010 financial statements.

Appendix

Supplementary Report

By Fund

April 30, 2010

(Unaudited)

HIGHLIGHTS

(Unaudited)

Year Ended April 30, 2010

(Millions of dollars)

	Operating Fund	Ancillary Operations	Capital Fund	Restricted Funds	Total
Statement of Operations					
Revenues	$ 1,549.1	$ 143.2	$ 78.4	$ 440.2	$ 2,210.9
Expenses	$ 1,482.0	$ 144.4	$ 118.2	$ 420.9	$ 2,165.5
Net Income (Loss)	$ 67.1	$ (1.2)	$ (39.8)	$ 19.3	$ 45.4
Balance Sheet					
Assets	$ 875.6	$ 301.3	$ 1,232.7	$ 1,883.3	$ 4,292.9
Liabilities	$ 847.7	$ 289.1	$ 978.9	$ 377.2	$ 2,492.9
Net Assets	$ 27.9	$ 12.2	$ 253.8	$ 1,506.1	$ 1,800.0
Net Assets composed of:					
Endowments				$ 1,437.2	$ 1,437.2
Investment in Capital Assets		$ 116.8	$ 296.4		$ 413.2
Internally Restricted Net Assets	$ 30.0	$ 10.6	$ 26.9	$ 68.9	$ 136.4
Unrestricted Deficit	$ (2.1)	$ (115.2)	$ (69.5)		$ (186.8)
	$ 27.9	$ 12.2	$ 253.8	$ 1,506.1	$ 1,800.0

HIGHLIGHTS

(Unaudited)

Year Ended April 30, 2009

(Millions of dollars)

	Operating Fund	Ancillary Operations	Capital Fund	Restricted Funds	Total
Statement of Operations					
Revenues	$ 1,356.1	$ 144.9	$ 63.0	$ 360.7	$ 1,924.7
Expenses	$ 1,389.6	$ 144.7	$ 108.0	$ 451.6	$ 2,093.9
Net Income (Loss)	$ (33.5)	$ 0.2	$ (45.0)	$ (90.9)	$ (169.2)
Balance Sheet					
Assets	$ 761.3	$ 307.7	$ 1,143.9	$ 1,696.1	$ 3,909.0
Liabilities	$ 736.6	$ 305.7	$ 907.5	$ 342.1	$ 2,291.9
Net Assets	$ 24.7	$ 2.0	$ 236.4	$ 1,354.0	$ 1,617.1
Net Assets composed of:					
Endowments				$ 1,286.3	$ 1,286.3
Investment in Capital Assets		$ 101.0	$ 282.8		$ 383.8
Internally Restricted Net Assets	$ 76.7	$ 11.3	$ 23.3	$ 67.7	$ 179.0
Unrestricted Deficit	$ (52.0)	$ (110.3)	$ (69.7)		$ (232.0)
	$ 24.7	$ 2.0	$ 236.4	$ 1,354.0	$ 1,617.1

PURPOSE OF THIS SUPPLEMENTARY REPORT

The University of Toronto's financial statements report the University's assets, liabilities, net assets, revenues and expenses on a single column basis. The purpose of this supplementary report is to show the University's financial statement information by fund in a format consistent with how the University manages its finances, that is, by fund. Schedules 1 and 2 show the balance sheet and statement of operations and changes in unrestricted deficit by fund.

The operating fund includes teaching and administrative activities supported mainly by government operating grants, student fees and sales of supplies and services.

Ancillary operations include residences, food and beverage services, parking, Hart House, Real Estate Division and U of T Press. All ancillary assets, liabilities, net assets, revenues and expenses are recorded in this fund.

The capital fund includes all capital assets – land, buildings, furnishings, computers, etc. - except for those of the ancillary operations. Contributions to the University for capital assets other than ancillaries are recorded in this fund.

Restricted funds include donations (including endowments), research grants and contracts. Each donation, usually supported by an agreement between the University and the donor, or a collection of small donations with similar purpose, is recorded in its own fund, and managed according to agreed upon terms and conditions. Each research grant or contract is recorded in its own fund and managed in accordance with the terms and conditions required by the sponsor of the funds. There are several thousand individual restricted funds.

The key drivers of financial performance described in the financial highlights affect the various funds as follows:

- Student enrolment growth is mostly reflected in the operating fund and in ancillary operations.
- Growth in research activity is reflected in restricted funds.
- Salaries and benefits growth is mostly reflected in the operating fund.
- Growth in space is reflected in ancillary operations (residences and parking facilities) and the capital fund (all other facilities, including academic teaching and research facilities).
- Donations are reflected in restricted funds.
- Endowments are reflected in restricted funds.
- Investment earnings are reflected in all funds, but predominantly in the operating fund and in restricted funds.

Schedule 1
(Unaudited)
UNIVERSITY OF TORONTO
BALANCE SHEET
April 30, 2010
(with comparative figures at April 30, 2009)
(millions of dollars)

	Operating fund	Ancillary operations	Capital fund	Restricted funds	2010 Total	2009 Total
ASSETS						
Current						
Cash and short-term investments	814.4	(8.9)	(126.3)	(119.2)	560.0	578.4
Accounts receivable	58.1	10.2		37.5	105.8	119.9
Inventories and prepaid expenses	3.1	8.1			11.2	14.4
Long-term accounts receivable			32.4		32.4	30.8
Investments				1,965.0	1,965.0	1,633.1
Capital assets, net		291.9	1,326.6		1,618.5	1,532.4
	875.6	301.3	1,232.7	1,883.3	4,292.9	3,909.0
LIABILITIES						
Current						
Accounts payable and accrued liabilities	160.4	27.5	27.2	19.3	234.4	182.8
Deferred contributions				357.9	357.9	328.4
Accrued pension liability	161.0				161.0	90.7
Employee future benefit obligation other than pension	329.7				329.7	300.1
Internal loans	192.2	241.8	(434.0)			
Series A - senior unsecured debenture			158.8		158.8	158.8
Series B - senior unsecured debenture			199.1		199.1	199.1
Series C - senior unsecured debenture			74.7		74.7	74.7
Series D - senior unsecured debenture			74.4		74.4	74.4
Other long-term debt	4.4	10.7	6.1		21.2	51.9
Deferred capital contributions		9.1	872.6		881.7	831.0
	847.7	289.1	978.9	377.2	2,492.9	2,291.9
NET ASSETS						
Unrestricted deficit	(2.1)	(115.2)	(69.5)		(186.8)	(232.0)
Internally restricted	30.0	10.6	26.9	68.9	136.4	179.0
Investment in capital assets		116.8	296.4		413.2	383.8
Endowments				1,437.2	1,437.2	1,286.3
	27.9	12.2	253.8	1,506.1	1,800.0	1,617.1
	875.6	301.3	1,232.7	1,883.3	4,292.9	3,909.0

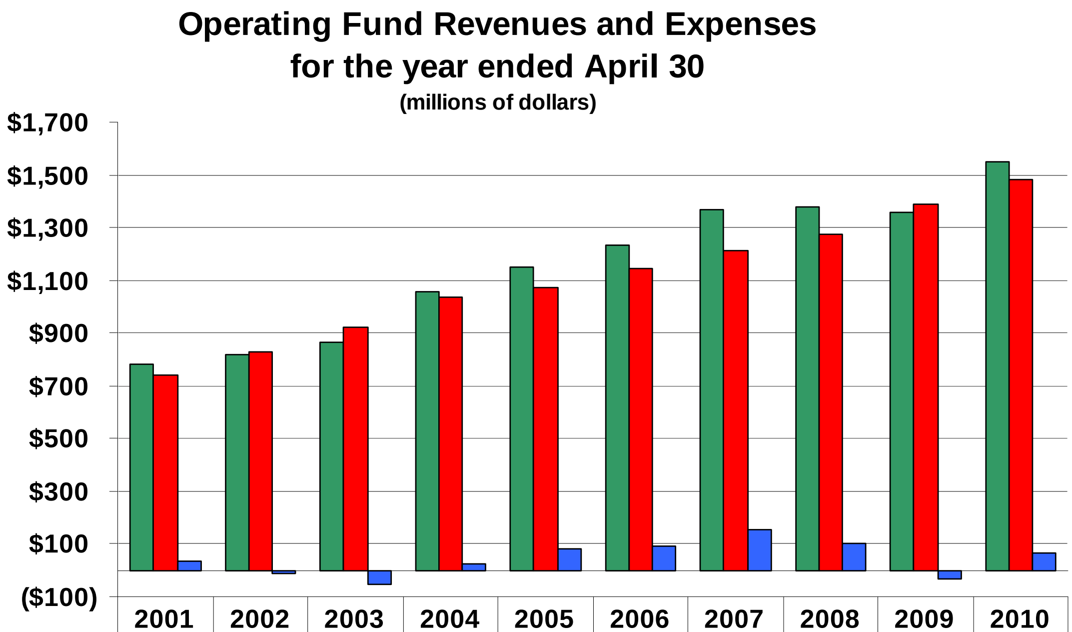
Schedule 2
(Unaudited)
UNIVERSITY OF TORONTO
STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED DEFICIT
April 30, 2010
(with comparative figures at April 30, 2009)
(millions of dollars)

	Operating fund	Ancillary operations	Capital fund	Restricted funds	2010 Total	2009 Total
REVENUES						
Government grants for general operations	674.8				674.8	646.0
Student fees	694.3	6.6	0.4		701.3	636.4
Government and other grants for restricted purposes		0.4	71.6	306.0	378.0	408.7
Sales, services and sundry income	117.8	134.9	0.4		253.1	251.0
Investment Income (loss)						
Endowments	33.5			62.7	96.2	(83.3)
Other	25.5	0.2	0.2	2.8	28.7	(42.0)
Donations		1.1	5.8	50.8	57.7	82.1
Contract research	3.2			17.9	21.1	25.8
	1,549.1	143.2	78.4	440.2	2,210.9	1,924.7
EXPENSES						
Salaries	797.8	6.1		204.0	1,007.9	983.6
Benefits	292.4	1.4		17.8	311.6	240.4
Materials and supplies	72.3	1.9		126.2	200.4	195.8
Scholarships, fellowships and bursaries	132.1				132.1	144.6
Amortization of capital assets	9.9	12.4	101.2	0.6	124.1	117.2
Cost of sales and services		80.5			80.5	80.5
Utilities	42.8	8.5			51.3	51.0
Repairs and maintenance	53.2	16.7	14.3	7.9	92.1	82.5
Travel and conferences	18.8			19.8	38.6	42.6
Interest on long-term debt	14.2	16.9		1.3	32.4	33.7
External contracted services	19.5			23.7	43.2	48.3
Telecommunications	10.8			1.3	12.1	12.5
Other	18.2		2.7	18.3	39.2	61.2
	1,482.0	144.4	118.2	420.9	2,165.5	2,093.9
Net income (loss)	67.1	(1.2)	(39.8)	19.3	45.4	(169.2)
Net transfer between funds	(11.3)	4.8	4.2	2.3		
Transfer of capital assets	(52.6)		52.6			
Unrealized gain (loss) on swap contracts		6.7	0.4		7.1	(2.7)
Change in internally restricted	46.7	0.6	(3.6)	(1.1)	42.6	100.5
Change in investment in capital assets		(15.8)	(13.6)		(29.4)	(11.9)
Transfers of donations to endowments				(1.4)	(1.4)	(0.1)
Transfer from internally restricted endowments				(19.1)	(19.1)	83.3
Net change in unrestricted deficit for the year	49.9	(4.9)	0.2	0.0	45.2	(0.1)
Unrestricted deficit, beginning of year	(52.0)	(110.3)	(69.7)		(232.0)	(231.9)
Unrestricted deficit, end of year	(2.1)	(115.2)	(69.5)	0.0	(186.8)	(232.0)

OPERATING FUND

The ***operating fund*** includes teaching and administrative activities supported mainly by government operating grants, student fees and sales of supplies and services.

Operating fund revenues for the year were $1.55 billion, expenses were $1.48 billion resulting in a net income of $67.1 million. Growth in operating fund revenues and expenses primarily reflected planned and expected increases in the number of students.



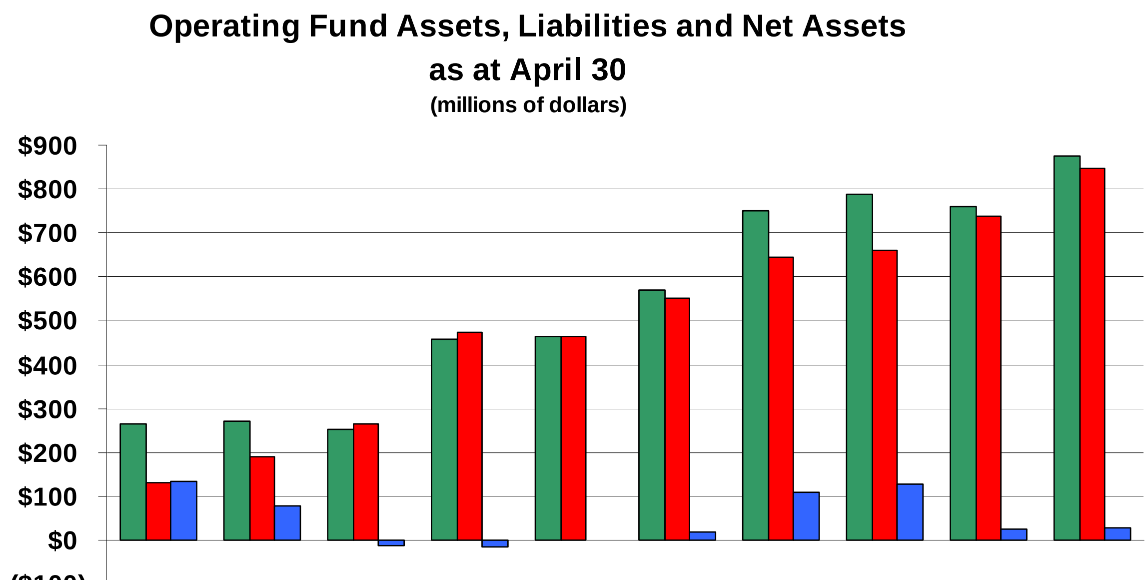
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues	779.4	819.6	866.9	1,057.9	1,152.0	1,235.4	1,367.6	1,379.2	1,356.1	1,549.1
Expenses	742.8	830.4	921.8	1,035.1	1,071.0	1,143.8	1,214.4	1,275.9	1,389.6	1,482.0
Net income (loss)	36.6	(10.8)	(54.9)	22.8	81.0	91.6	153.2	103.3	(33.5)	67.1

The 2010 net income in the operating fund is a result of:

Capital expenditures not shown as expenses but transferred to the capital fund and added to the balance sheet as capital assets	**52.6**
Net increase in employee future benefit obligations	**(83.2)**
Transfers to other funds not expensed in the operating fund	**11.3**
Reduction in expenses by divisions required to cover the deficit	**11.2**
Last year's general university expenses charged to academic divisions	**8.1**
General University savings to be distributed to academic divisions in 2010-11	**48.4**
Academic funding to be recovered over 5 years	**(17.8)**
Divisional spending from reserves carried forward	**36.5**
	67.1

The cumulative operating deficit at April 30, 2010 is $2.1 million, whereas the long-range operating budget called for a cumulative operating deficit of $50.5 million after adjusting for the unused portion of funds that was made available to divisions to meet their commitments of $27.2 million. Academic divisions will be receiving $48.4 million in 2010-11 to bring the actual cumulative deficit in line with the planned long-range budgeted deficit.

Operating fund assets at April 30, 2010 were $875.6 million, liabilities were $847.7 million, and net assets were $27.9 million.



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Assets	264.0	269.4	252.3	458.8	463.8	569.6	751.1	788.5	761.3	875.6
Liabilities	131.5	190.6	264.3	473.9	465.2	550.4	643.8	661.4	736.6	847.7
Net Assets	132.5	78.8	(12.0)	(15.1)	(1.4)	19.2	107.3	127.1	24.7	27.9

The net assets for the year increased from $24.7 million in 2009 to $27.9 million mainly due to the following:

- $67.1 million net income for the year.
- ($63.9 million) net transfers to other funds.

The transfers to other funds were as follows:

- $52.6 million to the capital fund to reflect capital asset expenditures in the operating fund and contributions to capital projects, which are both recorded in the capital fund.
- $1.8 million to restricted funds in support of various matching funds initiatives.
- $4.2 million to the capital fund for various projects.
- $1.8 million to the St. George parking operation, $2.5 million subsidy for Woodsworth College and New College residences less net ($0.5 million) transfer from other ancillary operations.
- $1.5 million to ancillary operations to reduce the Innovations Foundation deficit.

There are two categories of net assets for the operating fund as follows:

- ($2.1 million) unrestricted deficit.

- $30.0 million internally restricted net assets.

The $2.1 million unrestricted deficit is the "cumulative deficit" of the operating fund which is referenced in the University's Operating Budget Report. The cumulative deficit has decreased from $52.0 million at April 30, 2009 to $2.1 million at April 30, 2010, due to the following:

- $67.1 million net income.
- ($63.9 million) net transfers to other funds as noted above.
- $46.7 million transferred from the operating fund's internally restricted net assets to fund current year's expenditures and to offset the unfunded portion of employee benefits.

Internally restricted net assets of $30.0 million mainly include departmental reserves of $283.6 million and funds set aside for infrastructure repairs of $29.6 million offset by $302.5 million of net unfunded liability associated with employee future benefits which will have to be paid from future years' operating fund revenues.

Schedule 3 is a summary of reserves carried forward that comprise the $30.0 million in internally restricted net assets. Included in this schedule are plans by academic divisions detailing how reserves carried forward will be spent on a one-time only basis, or in the event of a deficit, a plan for its elimination using the following categories:

a) Independently funded projects:

Included in this section are a number of projects housed in operating units which exist because they generate their own source of funds (i.e. self-funded units). Examples are continuing education programs and "fee for service" contracts. The funds generated are expected to only be applied to future expenses of that unit.

b) Research:

Funds set aside for research are included in this section. This includes funds allocated to Principal Investigators as a result of the expense reimbursement program for Faculty and Librarians, overheads, research allowance or start-up funds. Also included are funds set aside for Canada Research Chairs and EAF Chairs including any related research allowance.

c) Student assistance:

This category captures all funds set-aside for scholarships, bursaries and other student assistance.

d) Infrastructure:

This category is intended to capture funds that have been set-aside by the unit in anticipation of a major renovation to their facility; infrastructure upgrades, such as computer networking, security, equipment and furniture renewal; and associated moving costs.

e) Other academic purposes:

This section includes divisional funds that are used for purposes other than those identified above. Funds in this category include funds set-aside for anticipated budget reductions or to reserve against other fluctuations in revenue that impact divisions in accordance with the new budget model, voluntary early academic retirements, professional development, and start-up funds.

Schedule 3
(Unaudited)
UNIVERSITY OF TORONTO
SUMMARY OF RESERVES CARRIED FORWARD
AT APRIL 30, 2010
(with previous year comparative figures)
(thousands of dollars)

	2009-10	2008-09
	Total	Total
Divisional Reserves		
Academic	255,598	243,209
Academic services	6,703	6,615
Student services	7,617	5,959
Student assistance	10,879	7,335
Facilities & services	18,140	14,487
Administration	28,476	20,873
Administrative systems	2,012	993
General university	(38,902)	(50,117)
U of T Campaign	(6,943)	(8,069)
Net Divisional reserves	283,580	241,285
Centrally held reserves		
Pension charge commitment	(160,969)	(90,747)
Pension reserve	24,835	12,405
Other employee future benefit obligation	(329,718)	(300,132)
Funds set aside for COLA, LTD and medical benefits	36,233	40,678
Funds set aside for SRA	127,231	118,626
Total	(302,388)	(219,170)
Research overhead	14,023	13,669
Infrastructure		
Accomodation & facilities directorate fund	29,571	28,253
Other funds		
University investment infrastructure fund	5,675	10,100
Transitional fund	560	560
Priorities fund	3,346	1,989
Loss on Interest Rate Swaps	(4,394)	
	5,187	12,649
Total internally restricted net assets	29,973	76,686

Schedule 3
(Unaudited)
UNIVERSITY OF TORONTO
SUMMARY OF RESERVES CARRIED FORWARD
AT APRIL 30, 2010
(with previous year comparative figures)
(thousands of dollars)

	2009-10						2008-09
	Independently Funded Projects	Research	Student Assistance	Infrastructure	Other	Total	Total
ACADEMIC DIVISIONS:							
Arts and Science, colleges and schools:							
Faculty of Arts and Science	1,224	25,853	(6,907)	531	(21,199)	(498)	18,279
University College					33	33	129
Innis College			25	102	82	209	262
Transitional Year Programme	109	23	48	27	97	304	347
Woodsworth College	1,200	59	200	206	357	2,022	2,084
UTSC academic	(540)	6,897	89	16,220	15,975	38,641	33,728
UTM academic		5,313			(11,069)	(5,756)	(11,174)
School of Continuing Studies					(2,645)	(2,645)	(3,946)
School of Graduate Studies					1,505	1,505	2,040
Graduate institutes and centres		9	1,879		1,689	3,577	3,534
	1,993	38,154	(4,666)	17,086	(15,175)	37,392	45,283
Health sciences:							
Faculty of Dentistry	10	225			5,757	5,992	6,289
Faculty of Medicine	18,584	16,489	15,397	4,033	37,397	91,900	90,577
Lawrence S. Bloomberg Faculty of Nursing	675	1,660	388	4,153	4,789	11,665	10,167
Leslie Dan Faculty of Pharmacy	3,103	2,367	30		7,163	12,663	8,297
Faculty of Physical Education and Health	533	512		800	2,491	4,336	5,293
	22,905	21,253	15,815	8,986	57,597	126,556	120,623
Other professional faculties:							
Faculty of Applied Science and Engineering	803	7,258	1,710	596	5,649	16,016	18,829
John H. Daniels Faculty of Architecture, Landscape and Design					(325)	(325)	(524)
Rotman School of Management		3,667			(1,636)	2,031	(6,840)
OISE/UT	5,300	2,800	2,800	21,100	4,855	36,855	30,602
Faculty of Forestry	16	898	189	40	406	1,549	1,436
Faculty of Law		1,018	530		2,698	4,246	1,695
Faculty of Information	23	368	18		1,373	1,782	3,001
Faculty of Music	934	176			2,541	3,651	2,786
Factor-Inwentash Faculty of Social Work	97	311	134	6,616	93	7,251	6,492
	7,173	16,496	5,381	28,352	15,654	73,056	57,477
Other academic costs:							
Provost Reserve Contingency					10,196	10,196	4,201
Transitional Fund					166	166	2,628
Faculty Recruitment Costs					3,493	3,493	4,988
Other					18,940	18,940	21,797
					32,795	32,795	33,614
Vacation Pay accrual					(12,697)	(12,697)	(11,511)
Voluntary Early Academic						-	-
Retirement Program accrual					(1,504)	(1,504)	(2,277)
TOTAL ACADEMIC DIVISIONS	32,071	75,903	16,530	54,424	76,670	255,598	243,209

Schedule 3
(Unaudited)

UNIVERSITY OF TORONTO
SUMMARY OF RESERVES CARRIED FORWARD
AT APRIL 30, 2010
(with previous year comparative figures)
(thousands of dollars)

	2009-10	2008-09
	Total	Total
ACADEMIC SERVICES:		
U of T Computing	2,578	2,669
Robarts library	465	693
Information Commons	(100)	55
UTSC library	2,338	2,073
UTM library	886	589
Library - Electronic Acquisitions	536	536
TOTAL ACADEMIC SERVICES	6,703	6,615
STUDENT SERVICES:		
St. George campus	1,715	916
UTSC campus	3,965	3,496
UTM campus	1,937	1,547
TOTAL STUDENT SERVICES	7,617	5,959
STUDENT ASSISTANCE:		
Recruitment and retention	995	898
Graduate fellowships	1,354	1,122
UTSC campus	34	56
UTM campus	23	21
St. George campus	8,473	5,238
TOTAL STUDENT ASSISTANCE	10,879	7,335
FACILITIES & SERVICES		
St. George campus	9,386	6,165
UTSC campus	5,165	4,275
UTM campus	3,589	4,047
TOTAL FACILITIES & SERVICES	18,140	14,487

Schedule 3
(Unaudited)
UNIVERSITY OF TORONTO
SUMMARY OF RESERVES CARRIED FORWARD
AT APRIL 30, 2010
(with previous year comparative figures)
(thousands of dollars)

	2009-10	2008-09
	Total	Total
CENTRAL ADMINISTRATION:		
Office of the Governing Council	324	327
Office of the President	9	11
Institutional costs	347	774
Vice-President and Provost	7,942	6,860
Vice-President - Research	539	(645)
Vice-President and Chief		
Advancement Officer	999	(81)
Vice-President - University Relations	2,871	2,304
Vice-President - Business Affairs	6,272	3,733
Vice-President - Human Resources and Equity	1,381	1,195
UTSC campus	3,704	3,320
UTM campus	7,009	5,700
Vacation Pay accrual	(2,921)	(2,625)
TOTAL CENTRAL ADMINISTRATION	28,476	20,873
ADMINISTRATIVE SYSTEMS:		
AMS Integrated Systems	0	74
Student Record System	2,012	919
TOTAL ADMINISTRATIVE SYSTEMS	2,012	993
GENERAL UNIVERSITY:		
Vice-President - Human Resources and Equity	4,840	840
Vice-President - Business Affairs		
Long-term borrowing pool	(8,185)	(14,455)
Vice-President and Provost		
Matching Funds Program	(34,798)	(36,072)
Other	(759)	(430)
TOTAL GENERAL UNIVERSITY	(38,902)	(50,117)
U of T Campaign	(6,943)	(8,069)
	283,580	241,285

Comparison of the Operating Fund Financial Results to the Operating Budget

It is important to compare the year-end results to budget to assess how well the budget has estimated the actual outcome. However, there are differences between the operating budget and the operating fund financial results that must be adjusted before the comparison can occur. These differences are summarized as follows:

- The financial statements are prepared on an accrual basis following Canadian generally accepted accounting principles ("GAAP"), while the operating budget projects cash receipts and expenditures.
- The financial statements include amortization of capital assets while the operating budget includes estimated cash outlays for these assets.
- The financial statements include the costs of pensions and other benefits in accordance with Canadian GAAP, while the operating budget includes the projected cash premiums to be paid for the year.

These differences require a $3.6 million adjustment to the financial statements' revenues and $79.3 million to expenses to make the numbers comparable to budget. Once these adjustments have been made, it is possible to compare the operating fund budget with the year-end results and to assess how closely actual results conformed to plan. In summary, the adjustment between the financial statements and the operating budget is as follows:

	Financial Statements	Adjustments	Adjusted Financial Statements	Original budget	Favourable (unfavourable) variance	% Variance
Operating fund revenues	1,549.1	(3.6)	1,545.5	1,404.3	141.2	10.1%
Operating fund expenses	1,482.0					
Capital asset transfer	52.6					
	1,534.6	(79.3)	1,455.3	1,422.1	(33.2)	(2.3%)
Net income (loss)	14.5	75.7	90.2	(17.8)	108.0	

Total operating fund revenues, after adjustments, were $1,545.5 million, as compared to budgeted revenues of $1,404.3 million, resulting in a positive variance of $141.2 million, or 10.1%. This positive variance was due primarily to:

- unexpected additional quality funding of $6.7 million,
- unexpected additional undergraduate accessibility funding of $10.7 million,
- unexpected medicine expansion funding of $8.8 million,
- a favourable tuition fee variance of $14.8 million primarily as a net result of higher undergraduate and graduate domestic enrolment and graduate international fees.
- a favourable investment income variance of $8.9 million due to expendable pool investment returns of 2.21% compared to budgeted returns of 2.02% combined with higher than budgeted invested capital.
- an increase of $16.1 million in unbudgeted divisional grants,
- a $4.0 million increase in student fees from academic programs for which no provincial government funding is provided and,
- an increase of $36.4 million in divisional sales and services.

Total operating fund expenses, after adjustments, were $1,455.3 million, as compared to budgeted expenses of $1,422.1 million resulting in a negative variance of $33.2 million. This negative variance was primarily due to additional divisional expenses in support of the academic mission and the higher than budgeted benefits costs of $9.5 million offset by a saving in the utilities budget of $5.9 million attributed to lower than anticipated costs of gas due to lower consumption and lower than budgeted consumption. A detailed analysis is shown below.

Schedule 4

(Unaudited)

UNIVERSITY OF TORONTO

COMPARISON OF ACTUAL OPERATING FUND RESULTS WITH ORIGINAL BUDGET FOR THE YEAR ENDED APRIL 30, 2010

(millions of dollars)

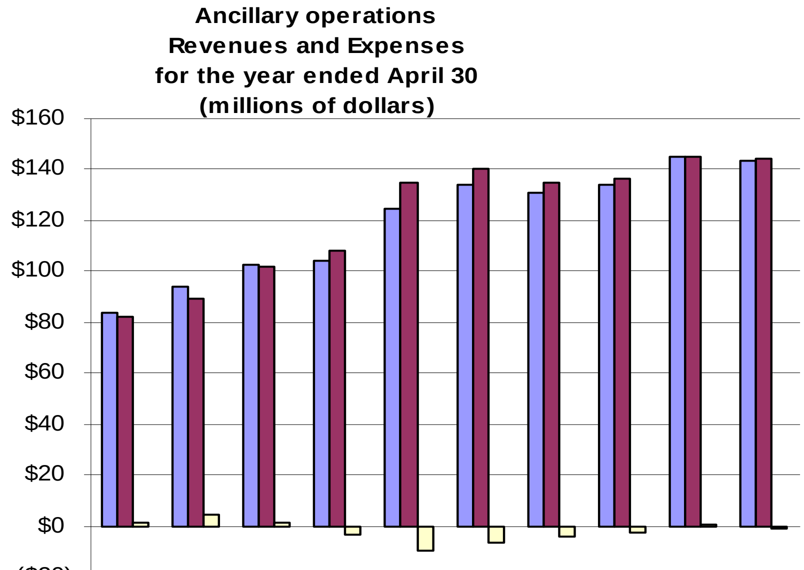
	ACTUAL			BUDGET	VARIANCE
	Financial Statements	Adjustments	Adjusted Financial Statements	Original budget	Favourable (Unfavourable)
REVENUES					
General university income:					
Provincial grants	623.6	0.0	623.6	594.5	29.1
Indirect cost recovery of grants and contracts	26.0	3.2	29.2	29.4	(0.2)
Student fees	561.6	0.0	561.6	546.8	14.8
Investment income:					
Endowment (chairs and student aid)	33.5		33.5	6.1	27.4
Other	25.5	(3.6)	21.9	13.0	8.9
Sundry income:					
Contract resesearch	3.2	(3.2)	0.0		0.0
Other	15.6		15.6	10.9	4.7
Municipal Taxes	5.0		5.0	5.0	
	1,294.0	(3.6)	1,290.4	1,205.7	84.7
Divisional income:					
Provincial grants	29.9	0.0	29.9	13.8	16.1
Student fees	121.6	0.0	121.6	117.6	4.0
Sales and services	103.6	0.0	103.6	67.2	36.4
	255.1	0.0	255.1	198.6	56.5
	1,549.1	(3.6)	1,545.5	1,404.3	141.2
EXPENSES					
Academic	988.3	(52.6)	935.7	881.7	(54.0)
Academic services	81.9	(3.9)	78.0	70.1	(7.9)
Student services	37.4	(2.3)	35.1	33.4	(1.7)
Student assistance	138.1	(0.5)	137.6	143.0	5.4
Physical plant maintenance and services	70.6	(4.7)	65.9	78.2	12.3
Physical plant utilities	53.1	(0.7)	52.4	57.4	5.0
Alterations and renovations	8.1	0.0	8.1	0.0	(8.1)
Administration	104.9	(6.9)	98.0	123.7	25.7
Amortization	9.9	(9.9)	0.0		
Interest expense	14.2	(14.2)	0.0		
General university expense	23.1	16.4	39.5	29.6	(9.9)
Municipal taxes	5.0	0.0	5.0	5.0	0.0
	1,534.6	(79.3)	1,455.3	1,422.1	(33.2)
Operating results before the following:	14.5	75.7	90.2	(17.8)	108.0
Repayment of Deficit		11.2	11.2	11.2	0.0
Change in internally restricted funds (Schedule 3)	46.7	(86.9)	(40.2)	0.0	(40.2)
Transfers	(11.3)		(11.3)	0.0	(11.3)
NET CHANGE IN DEFICIT FOR THE YEAR	49.9	0.0	49.9	(6.6)	56.5

ANCILLARY OPERATIONS

Ancillary operations include service ancillaries (residences, food and beverage services, parking, and Hart House) and business ancillaries (Real Estate and U of T Press). All ancillary assets, liabilities, net assets, revenues and expenses are recorded in this fund.

Since 2001, a large expansion in residence, food and beverage and parking facilities has resulted in significant growth in revenues, expenses, assets and liabilities of ancillary operations.

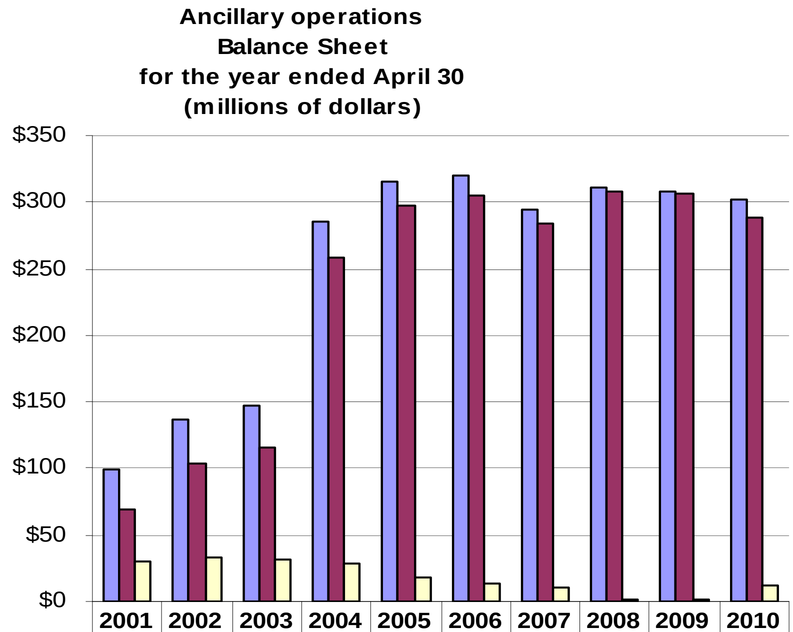
Ancillary revenues grew from $83.8 million in 2001 to $143.2 million in 2010, expenses grew from $82.2 million to $144.4 million, and the net income of $1.6 million in 2001 became a loss of $9.6 million by 2005 and has since recovered to a loss of $1.2 million in 2010. Almost all the capital expansion has been financed, and the net losses were primarily due to an increase in interest expense from $3.8 million in 2001 to $16.9 million in 2010.



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues	83.8	94.2	103.0	104.4	124.9	133.7	130.7	133.8	144.9	143.2
Expenses	82.2	89.5	101.7	108.0	134.5	140.3	135.0	136.6	144.7	144.4
Net income (loss)	1.6	4.7	1.3	(3.6)	(9.6)	(6.6)	(4.3)	(2.8)	0.2	(1.2)

Ancillaries as a group sustained a net loss of $1.2 million. After transfers out of $15.8 million to the net asset category of investment in capital assets which reflected the internal financing of capital assets, other transfers in of $5.4 million and the $6.7 million gain in recording the fair value of interest rate swaps on the long-term debt, the unrestricted deficit increased by $4.9 million for the year to $115.2 million.

Ancillary assets grew from $99.1 million in 2001 to $301.3 million while liabilities grew from $68.4 million in 2001 to $289.1 million in 2010. Net assets fell from $30.7 million to $12.2 million over the same period, essentially reflecting the impact of the additional amortization and interest expense on net income.



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Ancillary assets	99.1	136.6	147.3	285.5	315.8	319.4	294.8	310.7	307.7	301.3
Ancillary liabilities	68.4	103.7	115.6	257.7	297.1	305.6	284.4	308.6	305.7	289.1
Ancillary net assets	30.7	32.9	31.7	27.8	18.7	13.8	10.4	2.1	2.0	12.2

At April 30, 2010, net assets were $12.2 million, an increase of $10.2 million from April 30, 2009, due to the following:

- ($1.2 million) net loss for the year.
- $6.7 million gain in recording the fair value of interest rate swaps on the long-term debt.
- $1.8 million from the operating fund to the St. George parking operation, $2.5 million subsidy from the operating fund for Woodsworth College and New College residences less net ($0.4 million) transfers to other funds.
- ($0.7 million) transferred to a restricted fund trust account for future maintenance and bursaries.
- $1.5 million from the operating fund to reduce the Innovations Foundation deficit.

There are three categories of net assets for ancillary operations which together total $12.2 million. They are:

- ($115.2 million) in unrestricted deficit.
- $10.6 million in internally restricted net assets
- $116.8 million in investment in capital assets.

The investment in capital assets category reflects capital construction of facilities which have been funded by internal borrowing of the University's own funds, resulting in a corresponding increase in unrestricted deficit. Over time, investment in capital assets will be reduced as the capital assets are amortized, and unrestricted deficit will be decrease by the amount of that amortization.

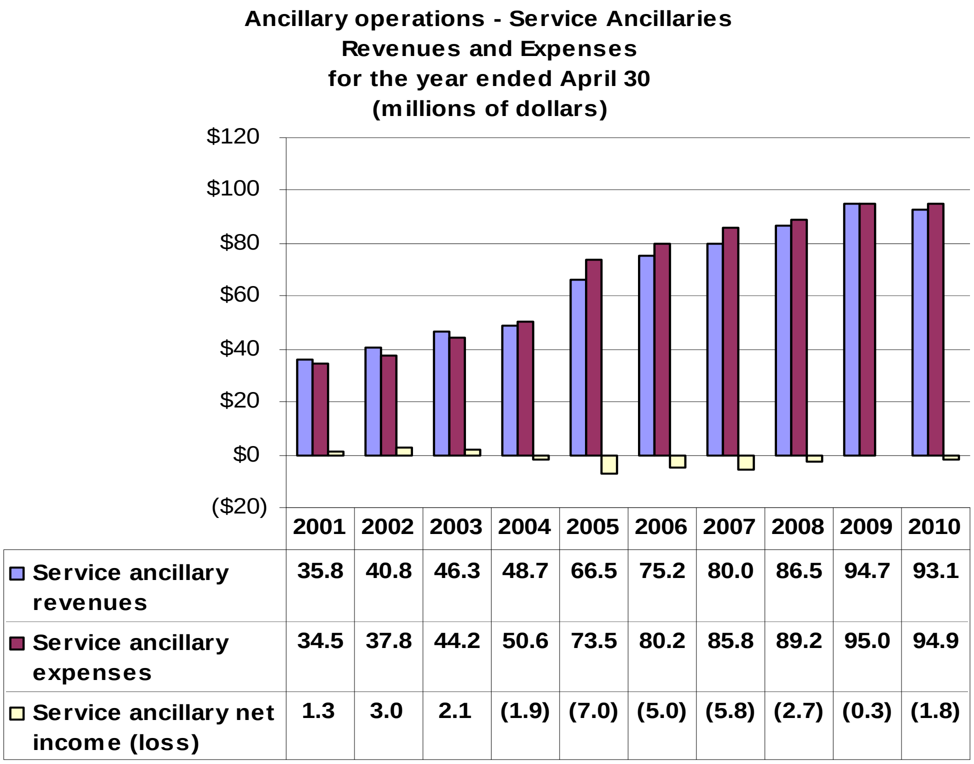
Schedule 5 shows details by ancillary operation.

Schedule 5
UNIVERSITY OF TORONTO
ANCILLARY OPERATIONS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED APRIL 30, 2010
(with comparative totals for 2009)
(thousands of dollars)

	Revenues	Expenses	Commitments and Transfers	Surplus/(Deficit) Opening	Surplus/(Deficit) Closing	Investment in Capital Assets	Internally Restricted	2010 Total Net Assets	2009 Total Net Assets
	$	$	$	$	$	$	$	$	$
Residences									
Graduate House	3,545	3,875	(14,272)	(779)	(15,381)	17,051		1,670	2,037
Scarborough	5,708	5,432	(66)	(3,325)	(3,115)	4,143	933	1,961	1,726
Mississauga	10,085	9,854	(4,978)	(30,111)	(34,858)	29,648	527	(4,683)	(4,815)
University College	5,226	5,044	352	(1,472)	(938)	2,709	1,782	3,553	3,368
Innis College	2,711	2,430	(101)	1,057	1,237	406	1,137	2,780	2,624
New College	6,776	7,698	1,519	(10,160)	(9,563)	2,783	600	(6,180)	(6,487)
Family Housing	7,577	7,097	(587)	2,694	2,587	369	1,350	4,306	4,413
Woodsworth College	3,484	3,871	2,244	(23,409)	(21,552)	24,619		3,067	2,250
89 Chestnut	17,769	17,958	(53)	(11,015)	(11,257)	127		(11,130)	(10,943)
	62,881	63,259	(15,942)	(76,520)	(92,840)	81,855	6,329	(4,656)	(5,827)
Food/Beverage Service									
St. George	1,971	2,305	13	348	27	75	750	852	1,186
Scarborough	449	415	(21)	171	184	116	7	307	312
Mississauga	1,391	1,009	40	(265)	157	273	60	490	109
New College	603	582	131	(1,386)	(1,234)	1,255	38	59	39
University College	3,015	2,713	(100)	(183)	19		501	520	218
	7,429	7,024	63	(1,315)	(847)	1,719	1,356	2,228	1,864
Parking									
St. George	4,966	6,831	2,533	2,249	2,917	7,811	400	11,128	10,973
Scarborough	2,498	1,959	77	(6,503)	(5,887)	7,759	396	2,268	1,933
Mississauga	2,681	2,862	623	(11,160)	(10,718)	11,011		293	475
	10,145	11,652	3,233	(15,414)	(13,688)	26,581	796	13,689	13,381
Hart House	12,649	13,022	5	523	155	2,672	2,001	4,828	5,201
University of Toronto Press	48,339	47,596	456	951	2,150	2,235		4,385	3,642
Residential Housing	1,787	1,899	342	(994)	(764)	1,731	154	1,121	1,232
University of Toronto - Innovations Foundation			1,500	(10,366)	(8,866)			(8,866)	(10,366)
	50,126	49,495	2,298	(10,409)	(7,480)	3,966	154	(3,360)	(5,492)
Total without the Swap	143,230	144,452	(10,343)	(103,135)	(114,700)	116,793	10,636	12,729	9,127
Fair value of Interest Rate Swap				(7,111)	(464)			(464)	(7,111)
Total with the Swap	**143,230**	**144,452**	**(10,343)**	**(110,246)**	**(115,164)**	**116,793**	**10,636**	**12,265**	**2,016**

Service Ancillaries

Service ancillaries had revenues of $93.1 million and expenses of $94.9 million, with a net loss of $1.8 million for the year. Service ancillary revenues have increased by 160.1% since 2001 and expenses have risen by 175.1% due to expansion of residences, food and beverage and parking services to deal with the growth in student enrolment. The majority of this growth is due to the residence expansion with the addition of over 3,500 residence beds over the past eight years. This residence expansion has increased residence assets, liabilities, revenues and expenses considerably since 2001. Most residence operations have planned deficits for several years until residence fees can catch up with increased expenses, including large fixed rate principal and interest payments on borrowing.



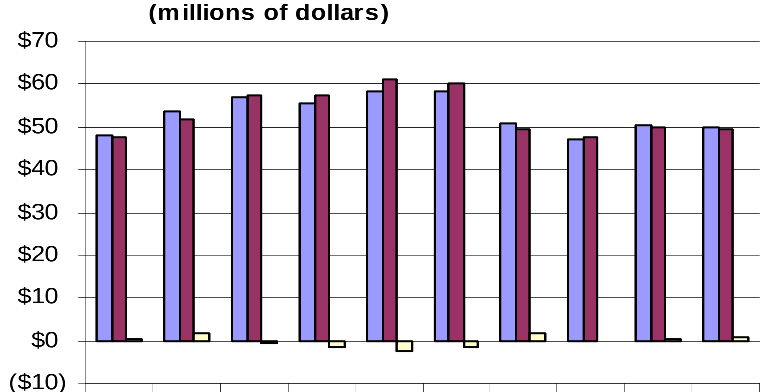
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Service ancillary revenues	35.8	40.8	46.3	48.7	66.5	75.2	80.0	86.5	94.7	93.1
Service ancillary expenses	34.5	37.8	44.2	50.6	73.5	80.2	85.8	89.2	95.0	94.9
Service ancillary net income (loss)	1.3	3.0	2.1	(1.9)	(7.0)	(5.0)	(5.8)	(2.7)	(0.3)	(1.8)

The long-term financial health of these operations is dependent upon filling the residence and parking spaces. Growth has largely been financed through long-term borrowing and through subsidy from the operating results of existing ancillary operations resulting in reduced operating margins. Where capital infrastructure growth has occurred, the individual ancillary operation is expected to break even annually in 5 years and cumulatively in 8 years.

Business Ancillaries

Business ancillaries had revenues of $50.1 million and expenses of $49.5 million, for a net income of $0.6 million for the year. The reduction in revenues since 2006 is a result of the transfer of the University of Toronto Innovations Foundation (UTIF) from ancillary operations to the operating fund (Vice-President, Research portfolio) effective May 1, 2006 and as a result of the U of T Press selling its printing division. The UTIF transfer within the University was made for two reasons. Firstly, UTIF had been unsuccessful at becoming economically viable as called for by its 2002 business plan. Secondly, the University has refocused its mission of transferring knowledge without taking the risks associated with investing in start-up technologies. The transfer within the University will permit closer relations with academic divisions, more disclosure and a clearer focus on the mission of knowledge transfer.

Ancillary operations - Business Ancillaries
Revenues and Expenses
for the year ended April 30
(millions of dollars)



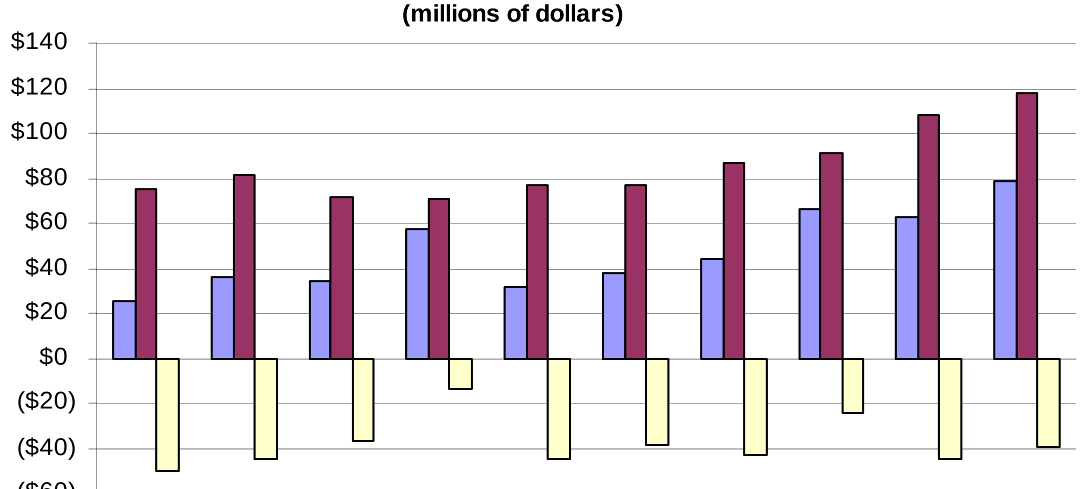
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Business ancillary revenues	48.0	53.4	56.7	55.7	58.4	58.5	50.7	47.3	50.2	50.1
Business ancillary expenses	47.7	51.7	57.5	57.4	61.0	60.1	49.2	47.4	49.7	49.5
Business ancillary net income (loss)	0.3	1.7	(0.8)	(1.7)	(2.6)	(1.6)	1.5	(0.1)	0.5	0.6

CAPITAL FUND

The capital fund includes all capital assets – land, buildings, furnishings, computers, etc - except for those of the ancillary operations. Contributions to the University for capital assets other than ancillaries are recorded in this fund.

Capital fund revenues for the year were $78.4 million and expenses were $118.2 million, for a net loss of $39.8 million. Revenues include an amount equal to the amortization of capital assets that were financed by grants and donations, while expenses include the amortization of all capital assets.

Capital Fund
Revenues and Expenses
for the year ended April 30
(millions of dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues	25.1	36.0	34.5	57.2	31.8	38.2	43.8	66.2	63.0	78.4
Expenses	74.9	81.2	71.6	70.9	76.6	77.0	87.0	90.7	108.0	118.2
Net loss	(49.8)	(45.2)	(37.1)	(13.7)	(44.8)	(38.8)	(43.2)	(24.5)	(45.0)	(39.8)

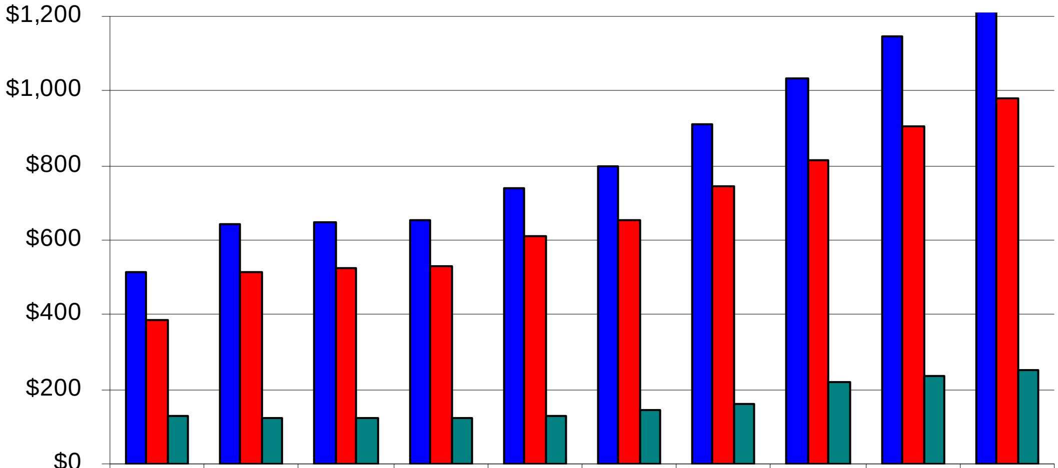
The reason for this loss is that a significant share of the revenue funding the amortization of capital assets and funding capital projects is recorded as revenue in the operating fund and transferred to the capital fund as an interfund transfer, and therefore is not reported in revenues or expenses of the capital fund.

A total of $56.8 million was transferred to the capital fund made up of $52.6 million in capital asset expenditures in the operating fund that must be recorded in the capital fund combined with net transfers of $4.2 million in contributions from mainly the operating fund.

Capital fund assets were $1,232.7 million, liabilities were $978.9 million and net assets were $253.8 million. Net assets comprised $296.4 million investment in capital assets, partially offset by $42.6 million in unrestricted deficit and internally restricted funds.

The assets of the capital fund have grown from $513.5 million in 2001 to $1,232.7 million in 2010 primarily as a result of the University's large capital construction program. Liabilities have also grown from $385.7 million in 2001 to $978.9 million in 2010. This growth in liabilities reflects the increase in long-term debt to $513.1 million, and growth in deferred capital contributions to $872.6 million. This growth is partly offset by internal loans of $434.0 million because the external borrowing of long-term debt is recorded in the capital fund and internal loans are provided to departments or operations that have the responsibility to repay the loans. These internal loans are recorded as a liability in the operating or ancillary fund, as appropriate, and are recorded as a receivable in the capital fund.

Capital Fund
Balance Sheet
as at April 30
(millions of dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Assets	513.5	640.6	647.7	653.1	737.4	798.2	908.3	1,031.5	1,143.9	1,232.7
Liabilities	385.7	515.5	526.7	531.4	610.8	652.7	746.2	812.9	907.5	978.9
Net assets	127.8	125.1	121.0	121.7	126.6	145.5	162.1	218.6	236.4	253.8

RESTRICTED FUNDS

Restricted funds include donations (including endowments), research grants and contracts. Each donation, usually supported by an agreement between the University and the donor, or a collection of small donations with similar purpose, is recorded in its own fund, and managed according to agreed upon terms and conditions. Each research grant or contract is also recorded in its own fund and managed in accordance with the terms and conditions required by the sponsor of the funds. There are over 16,000 individual restricted funds.

Restricted funds exclude research grants for capital assets and donations designated for capital assets, both of which are recorded in the capital fund. When restricted funds are provided for, or spent on, capital assets, they are recorded in the capital fund.

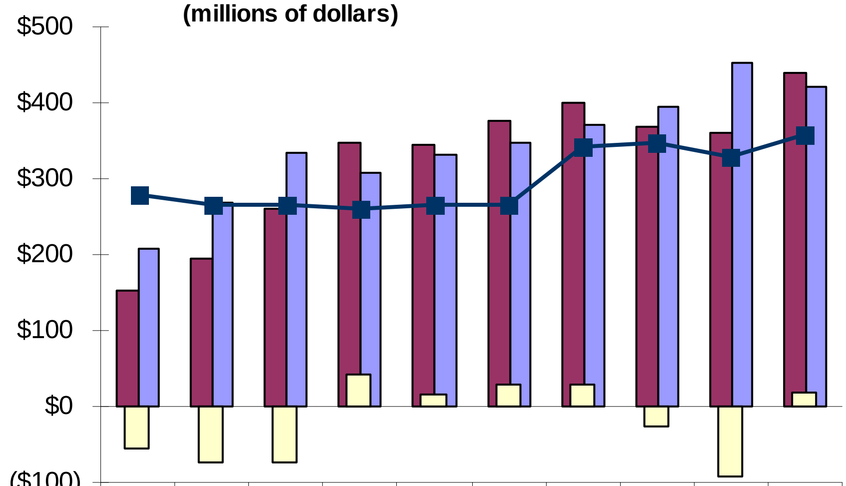
Financial reporting for restricted funds follows specific rules with respect to revenue recognition that differ from the rules for unrestricted receipts. They are:

- Restricted grants and expendable donations are recorded as revenue when spent, while unrestricted grants and expendable donations are recorded as revenue when received.
- Unspent restricted grants and donations are recorded as liabilities known as deferred contributions.
- Endowed donations are not recorded as revenue. They are added directly to the balance sheet as net assets.
- Investment earnings on externally restricted endowments that are made available for spending are recorded as revenue and the amount for preservation of capital is added directly to the balance sheet as net assets. In years where earnings are below the amount made available for spending, a drawdown is made from previously re-invested earnings. The amount made available for spending is recorded as revenue, and net assets on the balance sheet are reduced directly by the drawdown. Investment earnings or loss on internally restricted endowments are recorded in the income statement and the amount for preservation of capital or drawdown is recorded as a transfer to or from the endowment balance.

Restricted funds revenues for the year were $440.2 million, expenses were $420.9 million, and net income was $19.3 million. Net income in any particular year mainly reflects the recording of unrestricted donations and investment income as revenue that was not yet offset by expenses. A net loss in any particular year mainly reflects the recording of investment losses on internally restricted endowments funded by a transfer from endowed capital and/or expenses funded by internally restricted net assets.

In 2009, investment losses reflected the very poor investment markets. No spending allocation was made from the endowment. Commitments normally met from the endowment payout were met from other sources of funds. In 2010, the University was able to make funds available for spending from the endowment.

Restricted Funds
Revenues, Expenses and Deferred Contributions
for the Year Ended April 30
(millions of dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues	153.4	193.6	259.5	348.6	345.1	377.0	399.9	369.7	360.7	440.2
Expenses	207.5	267.4	333.2	307.5	330.5	348.2	371.1	395.1	451.6	420.9
Net income (loss)	(54.1)	(73.8)	(73.7)	41.1	14.6	28.8	28.8	(25.4)	(90.9)	19.3
Deferred contributions	278.9	266.7	267.0	261.0	265.5	265.5	341.3	346.1	328.4	357.9

At April 30, 2010, the restricted funds net assets increased from April 30, 2009 by $152.1 million as a result of a net income of $19.3 million and a further $132.8 million, which was comprised as follows:

a) transfers from other funds:

- $1.8 million from the operating fund as matching funds,
- $0.7 million net transfer to fund future maintenance and bursaries offset by a $0.1 million transfer to the capital fund.

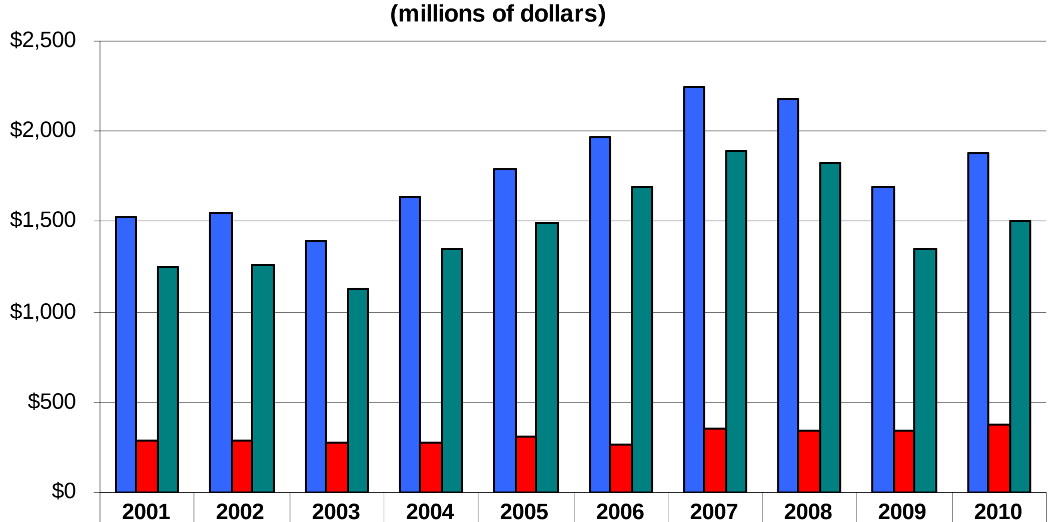
b) endowed contributions and investment losses on externally restricted endowments, which are not recorded as revenue, but are added (deducted) directly to (from) net assets:

- $19.5 million endowed donations.
- $4.2 Ontario grants and other endowed funds.
- $106.7 million investment gain on externally restricted endowments.

Restricted funds assets were $1.88 billion, liabilities were $377.2 million, and net assets were $1.51 billion. Net assets comprised $1.44 billion in endowments and $68.9 million in internally restricted funds**.**

As noted above**,** the majority of unspent expendable restricted funds are NOT recorded as net assets, but rather are recorded as deferred contributions in the liabilities section of the balance sheet. These liabilities have grown from $278.9 million in 2001 to $357.9 million in 2010 mainly as a result of the strong growth in research activity which is reflected in the expendable restricted funds on hand that have not yet been spent.

Restricted Funds
Balance Sheet
as at April 30
(millions of dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Assets	1,529.7	1,546.2	1,397.9	1,633.1	1,796.8	1,965.0	2,246.6	2,174.6	1,696.1	1,883.3
Liabilities	284.8	282.6	274.4	280.5	304.6	267.1	349.9	348.1	342.1	377.2
Net assets	1,244.9	1,263.6	1,123.5	1,352.6	1,492.2	1,697.9	1,896.7	1,826.5	1,354.0	1,506.1

Net assets in restricted funds have grown from $1.24 billion in 2001 to $1.51 billion in 2010. Schedule 6 reflects the change in endowment funds from April 30, 2009 to April 30, 2010 with the related expendable funds.

Schedule 6
(Unaudited)
UNIVERSITY OF TORONTO
RESTRICTED FUNDS
ENDOWMENT AND EXPENDABLE FUNDS AT FAIR VALUES AT APRIL 30, 2010
(thousands of dollars)

	Endowment funds					Expendable funds					
	April 30, 2009	Donations, and other additions	Preservation of capital (note 1)	Transfers	April 30, 2010	April 30, 2009	Donations, grants and other additions	Distributed Investment Income/(loss) (note 1)	Transfers	Disbursements	April 30, 2010
	$	$		$	$	$	$	$	$	$	$
Student aid (note 2)	241,773	6,593	26,633	125	275,124	24,584	6,149	73	1,548	-	32,354
Ontario Student Opportunity		-									
Trust Funds - Phase I (note 2)	239,345	-	23,092	-	262,437	12,322	-	6,887	1	-	19,210
Ontario Student Opportunity											
Trust Funds - Phase 2 (note 2)	28,741	-	2,773	-	31,514	1,002	-	1,133	24	-	2,159
Ontario Trust for Student Support (note 2)	34,012	6,880	4,082	148	45,122	1,012	(18)	1,184	193	-	2,371
Research funds	96,464	-	9,167	2	105,633	190,160	376,758	4,691	1,290	378,027	194,872
Departmental funds	151,971	5,935	14,991	672	173,569	131,545	47,729	24,054	(709)	64,336	138,283
Faculty endowment funds (note 2)	395,501	4,778	37,079	15	437,373	8,110	442	5,050	71	3,451	10,222
Connaught fund	68,066	-	6,571	-	74,637	2,269	-	3,404	(1,992)	166	3,515
I'Anson fund	2,115	-	205	-	2,320	458	-	107	-	-	565
Miscellaneous funds	28,350	(26)	1,179	-	29,503	24,613	10,448	16	900	12,707	23,270
	1,286,338	24,160	125,772	962	1,437,232	396,075	441,508	46,599	1,326	458,687	426,821
Comprising:											
Externally designated	1,081,265	23,707	106,783	267	1,212,022						
Internally designated	205,073	453	18,989	695	225,210						
	1,286,338	24,160	125,772	962	1,437,232						
Restricted						328,374	428,367	38,723	3,055	440,600	357,919
Unrestricted						67,701	13,141	7,876	(1,729)	18,087	68,902
						396,075	441,508	46,599	1,326	458,687	426,821

Notes:

(1) Consisting of investment income (loss) on:

Endowment funds	171,784
Expendable funds	587
	172,371

(2) Disbursements and corresponding distributed investment income for Students Awards ($12,360), Ontario Student Opportunity Trust Funds ($5,381), Ontario Trust for Student Support ($591) and Faculty Endowments ($15,132) are reported in the Operating Fund.

UNIVERSITY OF
TORONTO